

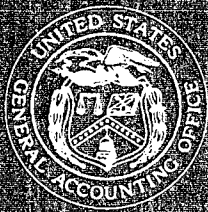
GAO

United States General Accounting Office  
Report to the Commissioner  
U.S. Customs Service

August 1992

# FINANCIAL MANAGEMENT

## Customs Needs to Establish Adequate Accountability and Control Over Its Resources





United States  
General Accounting Office  
Washington, D.C. 20548

**Accounting and Financial  
Management Division**

B-248392

August 25, 1992

The Honorable Carol Hallett  
The Commissioner of Customs

Dear Ms. Hallett:

This report presents the results of our financial management review of the U.S. Customs Service. We conducted this study as part of our review of the effectiveness of Customs' general management and our financial statement audit of Customs. We found that Customs has some major problems accounting for and controlling its resources. To address these problems, among other things, Customs established a financial management structure to implement the Chief Financial Officers Act of 1990. Efforts are also underway to develop a single, fully integrated financial management system. However, top management's continued involvement and commitment is essential if financial management improvements are to occur.

This report contains several recommendations to you in chapters 2, 3, 4, and 5. The head of a federal agency is required by 31 U.S.C. 720 to submit a written statement on actions taken on these recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of this letter and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of this letter.

We are sending copies of this report to the Chairmen and Ranking Minority Members of the Senate Committee on Governmental Affairs, the House Committee on Government Operations, the House Committee on Ways and Means, Subcommittee on Oversight; the Director of the Office of Management and Budget; the Secretary of the Treasury; and other interested parties. Copies will be made available to others upon request.

This report was prepared under the direction of Donald R. Wurtz, Director, Financial Integrity Issues, who may be reached on (202) 275-0850 if you or your staff have any questions. Other major contributors are listed in appendix II.

Sincerely yours,

A handwritten signature in dark ink, appearing to read "Donald H. Chapin".

Donald H. Chapin  
Assistant Comptroller General

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# Executive Summary

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## Purpose

The U.S. Customs Service is second to the Internal Revenue Service in the amount of revenue collected for the federal government. In fiscal year 1990, Customs collected \$19.1 billion in Customs duties on imported merchandise, excise taxes, fines and penalties, and user fees. To accurately account for such large sums of revenue requires effective accounting and internal control systems that ensure government assets are properly managed, accurately accounted for, and adequately safeguarded.

This report is part of GAO's overall review of the effectiveness of Customs' general management as well as GAO's financial statement audit of Customs, which is authorized by the Chief Financial Officers (CFO) Act of 1990. This report discusses Customs' effectiveness in accounting for and controlling funds and other resources and accurately reporting results of its operations. Because of extensive financial management problems identified in prior GAO reports and during the course of its review, GAO designated Customs as one of 16 "high-risk" areas in the government particularly vulnerable to fraud, waste, and mismanagement.

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## Background

Customs is part of the Department of the Treasury. Its multifaceted mission—revenue collection, import/export control, and criminal enforcement—has evolved since it was established in 1789. In the last decade, the amount of revenue collected by Customs has more than doubled, from \$8.2 billion in fiscal year 1980 to \$19.1 billion in fiscal year 1990. For fiscal year 1990, Customs duties on imported merchandise accounted for 90 percent of all Customs revenue collections. Excise taxes, user fees, and fines and penalties account for the remainder.

Customs' accounting operations are centralized and performed by its National Finance Center, which performs the accounting function for Customs headquarters, 7 regions, 44 districts/areas, and 294 ports of entry across the country and in about 20 foreign countries.

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## Results in Brief

Customs faces the challenge of establishing adequate accountability and control over its resources. Its automated and manual accounts receivable systems contain incomplete and inaccurate data. Customs also faces ongoing problems in accounting for and controlling its property. Furthermore, weak controls for identifying and collecting fees owed and for debt collection may have resulted in millions of dollars in user fees and delinquent accounts receivable not being collected. Recognizing many of these problems, Customs has, among other things, established a CFO

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structure to address its financial management problems. Efforts are also underway to develop a single, fully integrated financial management system. But some major financial management problems remain.

The CFO Act provides a framework for correcting many of Customs' financial management problems. Top management's continued involvement and commitment are essential to achieving an effective financial management environment and successfully implementing the act.

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## Principal Findings

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### Financial Management Systems Are Unreliable

Customs' accounting and internal control systems do not give management complete and accurate information to effectively manage its resources, especially its accounts receivable and property. For example, differences totaling millions of dollars exist between the amounts reported in its property systems and its primary accounting system. Customs does not know the amount of delinquent accounts receivable it should be collecting or the amount of property it is responsible for controlling.

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### Limited Controls Over Revenue

Customs does not have adequate internal controls in place to ensure that it identifies and collects amounts owed. For example, Customs currently does not capture information on the results of import document reviews to target future documents for review.

Millions of dollars in user fees may not be collected because Customs does not routinely match amounts received from passengers and exporters with amounts owed. Also, Customs' collection efforts may be hampered by external impediments, such as a statutory requirement that the carrier issuing the ticket would collect the fee, rather than the carrier transporting the passenger into the United States. Customs' fiscal year 1990 review at one airport showed that 6 of the 10 carriers audited had underpaid a total of \$1.9 million in passenger user fees. In addition, a May 1991 computer match comparing documentation for exported merchandise with fee collections identified exporters who had not paid any user fees.

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### System Deficiencies and Weak Internal Controls Hamper Debt Collection

Customs continues to face serious problems collecting its delinquent accounts receivable, which reportedly totaled \$344 million as of September 30, 1991. About \$286 million in delinquent receivables were



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reported over a year old as of that date. GAO found that Customs' collection efforts were hampered because (1) agency systems did not provide adequate information and (2) debt collection policies and procedures were not followed. In addition, delays can occur in the collection of protested bills if an importer files one protest involving multiple claims. Further, the Debt Collection Act of 1982 does not allow Customs to use private debt collection agencies and administrative offsets to make collections.

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**Additional Actions Needed  
to Enhance Systems  
Development Effort**

Over the past 3 years, Customs has worked on two consecutive systems development initiatives for replacing its primary accounting system. The first initiative, an in-house effort, lacked adequate operating and reporting requirements and was terminated. The current systems development effort uses off-the-shelf software. While this appears to be a step in the right direction, additional actions would increase the likelihood of its success. One step would be to closely coordinate Customs' programmatic system enhancement efforts with the current effort to design a new accounting system to help avoid unnecessary developmental cost and ensure the compatibility of the systems.

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**CFO Act Provides  
Framework for  
Improvements**

The CFO Act provides Customs with a broad foundation to improve its financial management environment. Customs has already taken a major step in implementing the act by designating the Assistant Commissioner for Management as its CFO. A CFO structure is now in place to address its financial management problems. However, financial management improvements will not come about immediately. The continuing strong support of top management will be critical to this effort.

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**Recommendations**

GAO is making several recommendations to the Commissioner of Customs to help strengthen the accounting and internal control systems that account for its resources. GAO also recommends that the Commissioner direct the Assistant Commissioner for Management, as the agency's Chief Financial Officer, to closely monitor Customs' systems development efforts so that known financial management problems are corrected.

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**Matter for  
Consideration by the  
Congress**

The Congress should consider authorizing Customs to use private debt collection agencies and administrative offsets by either amending the Debt

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Collection Act of 1982 or by including such provisions in legislation concerning Customs' programs.

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## **Agency Comments**

For the most part, Customs concurred with GAO's recommendations. Customs stated that the report summarized the problems it has experienced and documents much of its progress in improving its operations.

However, Customs did not fully concur with two GAO recommendations. In one case, GAO revised its recommendation to address Customs' concerns (see chapter 4). In the other case, Customs offered a course of action to meet the intent of GAO's recommendation (see chapter 2).

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## Abbreviations

ACS	Automated Commercial System
ADP	automated data processing
AIMS	Asset Information Management System
CFO	chief financial officer
FMFIA	Federal Managers' Financial Integrity Act
GAO	General Accounting Office
GSA	General Services Administration
NFC	National Finance Center
OMB	Office of Management and Budget



# Introduction

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As part of our financial statement audit and management review of the U.S. Customs Service, we assessed the agency's management and control over its financial operations, including its financial management systems, and its accountability over revenue and debt collection.

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## Background

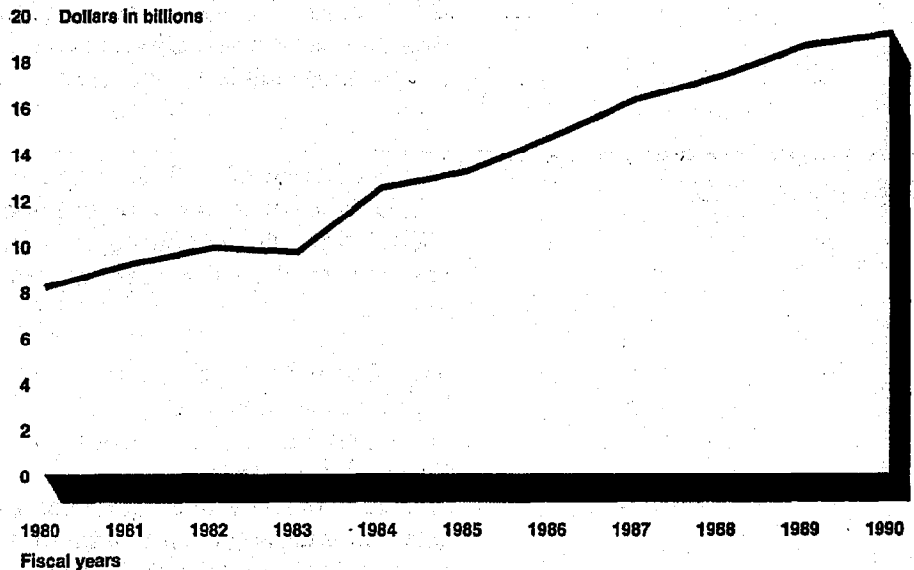
Customs, a part of the Department of the Treasury, was initially created to regulate the collection of duties imposed by the Congress on imported goods, wares, and merchandise, thereby raising revenue for the government. Since Customs' creation in 1789, its mission has expanded to include

- assessing and collecting duties, excise taxes, fees, and penalties due on imported merchandise;
- preventing fraudulent activities (to avoid payment of duties, taxes, and fees) and smuggling;
- regulating the movement of persons, carriers (air or sea vessels), and cargo entering and departing the United States;
- intercepting illegal high technology exports to prohibited destinations;
- cooperating with other federal agencies in suppressing the traffic in illicit narcotics and pornography;
- protecting the American public by enforcing auto safety and emission control standards, flammable fabric restrictions, and animal and plant quarantine requirements on imported merchandise; and
- protecting U.S. business and labor by enforcing regulations dealing with copyright, trademarks, and quotas.

As a primary border enforcement agency, Customs also enforces over 400 laws and regulations for 40 other governmental agencies.

Customs is second to the Internal Revenue Service in the amount of revenue collected for the federal government. In fiscal year 1990, Customs collected \$19.1 billion. Duties on imported merchandise accounted for 90 percent; excise taxes, 4 percent; user fees, 5 percent; and fines, penalties, and forfeitures, less than 1 percent. As shown in figure 1.1, the amount of revenue collected by Customs has more than doubled since fiscal year 1980.

**Figure 1.1: Revenue Collected by the  
U.S. Customs Service, Fiscal Years  
1980-90**



Source: U.S. Customs Service

In fiscal year 1990, Customs received \$1 billion in appropriated funds for salaries and expenses. In addition, it received about \$164 million in reimbursements for overtime and services rendered to other federal agencies, private organizations, and individuals, which were used to defray its operating expenses.

## Financial Management Structure

The Commissioner of Customs is appointed by the Secretary of the Treasury. Customs headquarters in Washington, D.C., is organized into seven major offices headed by Assistant Commissioners for enforcement, inspection and control, commercial operations, management, international affairs, information management, and internal affairs.

The Assistant Commissioner for Management serves as Customs' Chief Financial Officer (CFO). In this capacity, he provides advice and guidance on financial management to the Commissioner and is responsible for the formulation and execution of Customs' budget and the development and implementation of accounting, budgeting, and financial control systems.



The Customs Comptroller assists the Assistant Commissioner for Management and serves as Customs' Deputy Chief Financial Officer. The Comptroller is responsible for budget planning and execution; developing and implementing budget and planning information and control systems; developing and implementing accounting and financial control systems; performing related analyses, such as resource utilization, financial management and costs, workload, and productivity; and administering the Management Control Program for the Customs Service.

Customs' accounting operations are centralized at its National Finance Center (NFC) in Indianapolis, Indiana. NFC performs the accounting function for Customs headquarters and its 7 regions, 44 districts/areas, and 294 ports of entry across the U.S. and in about 20 foreign countries. Specifically, NFC is responsible for (1) developing and implementing a servicewide financial management program, (2) developing and providing data processing and internal control services related to revenue, appropriations, and payroll systems, and (3) maintaining central control of all fiscal and accounting activities in Customs, and (4) preparing reports on revenues collected and the use of appropriations.

Customs' Office of Logistics Management is responsible for planning, implementing, and monitoring space and property management servicewide. The National Logistics Center in Indianapolis, Indiana, is responsible for overseeing and administering regional logistics programs and maintaining Customs' Property Information Management System.

Customs reported in its fiscal year 1991 Federal Managers' Financial Integrity Act (FMFIA) report that it has 17 financial management systems—1 primary financial management system, 15 subsidiary systems, and 1 program system. The program system, known as the Automated Commercial System (ACS),<sup>1</sup> accounts for all revenue collected and provides information to the primary accounting system, the Customs Accounting and Management Information System, which serves as the general ledger system. In combination, these systems are used to (1) record and control appropriated funds and other financial resources, (2) record financial information on the financial results of programs and administrative operations, (3) prepare financial reports for use by Customs management, and (4) prepare financial reports on the results of programs and administrative operations and the status of appropriated funds for external parties, such as the Office of Management and Budget (OMB) and Treasury.

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<sup>1</sup>ACS, which is comprised of 17 modules (subsystems), processes import transactions, supports the enforcement of import and export laws and regulations, and generates trade statistics. It also accounts for the collection of duties, taxes, fees, fines, and penalties.

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Customs' Office of Information Management is responsible for the development, programming, implementation, and operational maintenance of the Automated Commercial System. This office is headed by the Assistant Commissioner for Information Management.

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## **Objectives, Scope, and Methodology**

The objectives of our review were to (1) determine whether Customs' financial management systems and operations adequately control resources and accurately report financial management information, (2) evaluate Customs' efforts to identify duties and fees owed, (3) assess Customs' efforts to collect delinquent accounts receivable, (4) examine Customs' actions to improve its financial systems, and (5) describe Customs' initial efforts to implement the Chief Financial Officers Act.

To assess the adequacy of Customs' financial management systems and operations, we reviewed our previous reports; those of the Subcommittee on Oversight of the House Committee on Ways and Means, the Treasury Office of Inspector General, and private consultants; and Customs' FMFIA reports for fiscal years 1983 to 1991. We also interviewed financial management officials at Customs headquarters, NFC, the districts, and ports of entry concerning the weaknesses identified in our review to follow up on selected accounting systems problems.

We evaluated selected internal and external financial reports generated by Customs' financial management systems to determine if they contain accurate and complete information and are useful to Customs in managing its financial and program operations. We tested the reliability of system information by comparing data among systems and against financial reports submitted to the Department of the Treasury as of September 30, 1990, and September 30, 1991. Moreover, we reviewed the results of a March 1991 survey conducted by Customs' Office of Management which included an assessment of the adequacy of Customs' training program for financial management personnel.

To evaluate Customs' efforts to identify amounts owed the federal government, we reviewed Customs' guidelines, practices, and records to account for and collect duties and fees owed. We also followed up on selected internal control problems regarding revenue collection activities that we and Customs had previously reported to determine the status of corrective actions.

To assess Customs' debt collection efforts, we randomly selected for review 427 bills from the Billings and Collections Module of Customs' Automated Commercial System as of March 31, 1991. For each bill in our sample, we reviewed supporting documentation to determine (1) bond coverage for the debt owed, (2) the accuracy of the bill, and (3) its collection status. The universe from which these bills were selected accounted for \$94.3 million (57 percent) of total accounts receivable (\$164.8 million) not under protest (disputed bills) for the three Customs regions in our review—Pacific, New York, and Southeast. These three regions accounted for about \$12.3 billion or 64 percent of total revenues collected by Customs in fiscal year 1990.

We also reviewed a judgmental sample of 60 accounts receivable that were under protest as of March 31, 1991, to determine their collection status. By design, this sample covered the various types of protests. As of March 31, 1991, Customs reported about 29,000 receivables under protest, for a total of \$196.7 million.

To evaluate Customs' efforts to improve its accounting systems, we interviewed financial management officials at Customs headquarters, NFC, and the Department of the Treasury. We reviewed a 1988 report prepared by a private consultant which evaluated various systems enhancement alternatives. We also analyzed systems documentation for financial modules developed in-house and reviewed a Customs task force report on the feasibility of using off-the-shelf software as an option. We compared the systems guidelines in the Federal Information Processing Standards Publications and our publication, Critical Factors in Developing Automated Accounting and Financial Management Systems, to the systems documentation for the proposed systems.

To assess Customs' efforts to implement the Chief Financial Officers Act, we reviewed the requirements of the act, OMB implementation guidance, and Treasury's and Customs' organization implementation plans. We also interviewed financial management personnel at Customs headquarters, NFC, the regions, districts, and ports of entry on financial management issues mandated in the act.

We conducted our review between May 1990 and December 1991 in accordance with generally accepted government auditing standards. Our work was performed at Customs headquarters offices in Washington, D.C., and its National Finance Center and National Logistics Center in Indianapolis, Indiana. We also performed audit work at three districts and

five ports of entry—Los Angeles District, Savannah District, Miami District, New York Seaport, Los Angeles International Airport, John F. Kennedy International Airport, Atlanta Hartsfield International Airport, and Miami International Airport.

The remainder of this report is organized as follows. Chapter 2 discusses weaknesses in Customs' accounting and internal control systems and emphasizes problems in receivables and property. Chapter 3 discusses internal control problems in identifying "for collection" duties and fees owed, and problems in collecting delinquent accounts receivable are discussed in chapter 4. Chapter 5 describes Customs' efforts to improve its accounting systems. Chapter 6 discusses Customs' efforts to implement the Chief Financial Officers Act and our perspectives on actions Customs needs to take to fully address the act's requirements.



# Financial Management Systems Do Not Adequately Account For and Control Resources

Customs' accounting and internal control systems do not provide management complete and accurate financial information to effectively manage its resources, especially its accounts receivable and property. In addition, Customs' financial reports do not accurately reflect its financial position. Lastly, financial management personnel lack adequate training to effectively carry out their assigned duties and responsibilities.

Customs has generally acknowledged serious weaknesses in its accounting systems in both its annual Federal Managers' Financial Integrity Act reports and quality assurance reports. While efforts are currently underway to address many of these problems, there are no simple solutions. Making the investment in modern systems and ensuring adequate training for personnel to enable Customs to produce information that will be useful and relevant to decisionmakers will be a challenge for top management.

## Accounting and Financial Systems Standards

Customs' financial management officials told us that they are currently using the accounting standards contained in our Policy and Procedures Manual for Guidance of Federal Agencies,<sup>1</sup> as these standards represent applicable accounting standards for Customs under the CFO Act.

The Budget and Accounting Procedures Act of 1950 (31 U.S.C. 3511 (a)) directs the Comptroller General, in consultation with OMB and Treasury, to prescribe accounting principles, standards, and related requirements for executive agencies to follow. The Federal Accounting Standards Advisory Board, established in October 1990, is currently examining these standards and will recommend revisions for issuance by GAO and OMB jointly.

In March 1991, the Board recommended that agencies continue to use, on an interim basis, the standards contained in agency accounting policies, procedures manuals, and/or related guidance to prepare their financial statements under the Chief Financial Officers Act. Where these standards differ from our Policy and Procedures Manual for Guidance of Federal Agencies (Title 2), agencies are to fully disclose the differences and the

<sup>1</sup>GAO's Policy and Procedures Manual for Guidance of Federal Agencies contains the principles, standards, and related requirements to be observed by federal agencies. Specifically, appendix I of Title 2 of the manual prescribes the accounting principles and standards. Titles 4, 5, 6, and 7 of the manual specify requirements governing claims; transportation; pay, leave, and allowances; and fiscal procedures, respectively. Also, agency accounting systems must comply with the Comptroller General's internal control and accounting system standards, as prescribed in appendices II and III of Title 2 of the manual, respectively, as well as requirements set forth in the Treasury Financial Manual and OMB circulars.

alternative accounting basis used in preparing their statements. We and OMB adopted this recommendation.

Additionally, according to our Policy and Procedures Manual for Guidance of Federal Agencies, agency accounting systems must be an integral part of the agency's total financial management system and must provide sufficient discipline, effective internal controls, and reliable and useful information. An accounting system encompasses the total structure of methods and procedures used to record, classify, and report information on the financial position and operations of a governmental unit or any of its funds, balanced account groups, or organizational components. It includes the manual and automated procedures and processes from the point a transaction is initiated to the issuance of financial statements and other management reports containing the data in detail or summary form.

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## **Customs' Financial Management Problems Have Been Reported Previously**

Over the years, GAO, the Treasury Inspector General, a congressional committee, and Customs have identified serious weaknesses in Customs' accounting and internal control systems. These financial management problems and those discussed in subsequent chapters contributed to our decision to designate Customs as 1 of 16 "high-risk" areas particularly vulnerable to fraud, waste, and mismanagement. Examples of problems identified include the following:

- Customs reported in its 1983 FMFIA report that accrual accounting for liabilities was not fully practiced as required under Title 2.
- Customs first reported in its 1986 FMFIA report that the Customs Accounting and Management Information System—its general ledger system—does not provide management with reliable data on the cost of carrying out operations.
- According to our February 1987 report,<sup>2</sup> Customs did not design the Automated Commercial System, its program system, to (1) clearly document how the system operates so that modifications could be made quickly and easily or (2) develop formal test plans for use in testing programs to ensure that software will meet user needs.
- In its 1988 FMFIA report, Customs reported that the general ledger lacks data integrity, numerous accounts have abnormal balances, and the equity accounts have been arbitrarily adjusted to balance corrections made to asset and liability accounts.

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<sup>2</sup>System Integrity: Stronger Controls Needed for Customs' Automated Commercial System (GAO/IMTEC-87-10, February 10, 1987).

- In February 1990, the Subcommittee on Oversight of the House Committee on Ways and Means reported<sup>3</sup> serious design flaws in Customs' Automated Commercial System. According to this report, changes to the system have occurred at a breakneck pace since its initial implementation in 1984, and many changes have been implemented without either documenting how the system operates or testing it adequately.
- In June 1990, we reported<sup>4</sup> that Customs cannot base the merchandise processing fee it assesses on imports on its actual operating costs. One of the reasons was that Customs does not have a work measurement system that accurately reflects the resources used for processing cargo.
- According to the Treasury Inspector General's February 1991 report<sup>5</sup> on contract administration and closeout procedures, contract payments were made without proof of delivery or acceptance of the goods/services as specified in the contract. Additionally, the system used to process procurements does not have information on the amount available for all contracts.
- We reported<sup>6</sup> in June 1991 that internal control weaknesses governing overtime pay to Customs inspectors allowed errors to go undetected when preparing overtime documentation, certifying payments, and entering data in the overtime systems.

Customs' 1991 FMFIA report and our work indicate that the above problems have not been resolved.

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## **Accounts Receivable Are Not Adequately Accounted For**

Customs does not effectively account for and control its accounts receivable due from the public, which reportedly totaled about \$534 million as of September 30, 1991. Customs' automated and manual accounts receivable systems contain incomplete and inaccurate data. In addition, Customs lacks a single, integrated accounts receivable system. These problems stem from insufficient internal controls and system design deficiencies which do not ensure that information from source documents is being recorded accurately into the systems.

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<sup>3</sup>Report on Abuses and Mismanagement in U.S. Customs Service Commercial Operations (Subcommittee on Oversight of the Committee on Ways and Means, U.S. House of Representatives, February 8, 1990).

<sup>4</sup>U.S. Customs Service: Merchandise Processing Fee: Examination of Costs and Alternatives (GAO/GGD-90-91BR, June 15, 1990).

<sup>5</sup>Contract Administration and Closeout Procedures at the U.S. Customs Service (Department of the Treasury, Office of the Inspector General-OIG-91-024, February 6, 1991).

<sup>6</sup>Customs Service: 1911 Act Governing Overtime Is Outdated (GAO/GGD-91-96, June 14, 1991).

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## Accounts Receivable Balance Is Unreliable

Customs' reported accounts receivable balance is incomplete and inaccurate because of problems in two areas: (1) duties and fees and (2) fines and penalties. In the duties and fees area, Customs uses cash-based rather than accrual-based accounting to record revenue, which does not conform to the Title 2 standards it has adopted. As a result, Customs is understating its accounts receivable by recognizing revenue at the time it is received, rather than when it is earned. Thus, in practice, Customs currently recognizes revenue when the importer or broker pays estimated duties and fees rather than when it releases the merchandise into the country for consumption, which is generally 10 days earlier.<sup>7</sup> For that 10-day period, Customs is not recognizing revenue it is owed. Furthermore, if importers file their import documents on time but do not pay estimated duties and fees at that time, this period can be much longer than 10 days. Late payment of duties and fees is discussed in chapter 3.

The second area in which Customs' accounts receivable balance is inaccurate is in the fines and penalties area. Our review showed that the accounts receivable balance for fines and penalties is based on estimates that may grossly understate the true amount owed. Customs recognizes that large differences exist between the amounts of fines and penalties assessed, mitigated, and collected; however, the accounting data do not adequately consider these differences. When importers or brokers violate trade regulations, it is Customs' policy to assess the fine or penalty at the maximum amount established by law, based on supporting evidence available. However, this amount can be mitigated, that is, it can be reduced by negotiations between Customs and the violator.

Although Customs seldom expects to collect the full amount assessed, it expects to collect the mitigated amount. However, through the appeals process, the mitigated amount can be reduced to a nominal amount. Because of this process, over the past several years, NFC personnel have estimated the collectible amounts by multiplying the mitigated amount by .2 percent. The resulting amounts are recorded as the accounts receivable for fines and penalties. While Customs reportedly had cumulative outstanding mitigated fines and penalties of about \$1.9 billion as of June 30, 1991, it estimated a receivable amount of about \$3.9 million for that quarter using this approach.<sup>8</sup>

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<sup>7</sup>In order for goods to be released, Customs must approve certain import documents which are used as a control to ensure that estimated duties and fees are subsequently paid. These documents are not used to establish accounts receivable.

<sup>8</sup>In addition to the \$3.9 million, Customs recorded \$186.7 million related to fines and penalties cases referred to the Department of Justice for the quarter.



Additionally, we have some concerns with Customs' recording of accounts receivable for fines. Fines, known as liquidated damages, are assessed when there is a breach in the contractual relationship between the importer and Customs. At times, the mitigated amount, not the .2 percent of the mitigated amount, accurately represents the amount to be collected. For example, importers filing import documents later than 10 days after the release of their merchandise are assessed, based on statutory requirements, liquidated damages equal to the value of the merchandise. The mitigation process allows the liquidated damages to be reduced to nominal amounts based on an administrative fee plus interest. A Customs official told us that in many liquidated damage cases involving this type of violation—a late filing—the mitigated amount is the amount collected. However, the accounts receivable, which is used only for financial reporting purposes, is recorded at .2 percent of that nominal amount, thereby understating the accounts receivable. The assessed or mitigated amounts are the balances that Customs uses to pursue collection from individual importers.

A similar problem exists with penalty cases. Penalty cases involve an intentional misrepresentation of merchandise brought into the United States for consumption. These cases can involve several stages of mitigation which may reduce very large penalties to much lower amounts by the end of the process. In the last stages of mitigation, the mitigated amount, not .2 percent of that amount, may accurately represent the amount to be collected. However, personnel at NFC have no way of knowing whether the mitigated amount obtained from Customs' automated system represents the initial or final stages of mitigation and whether, as a result, that amount or .2 percent of it is closer to the actual amount to be collected. This is because Customs does not maintain historical information on the collection status for fines and penalties at various stages of mitigation. Customs plans to create a file in its automated system to capture the historical data on the amount and collection of each fine and penalty. This enhancement effort is scheduled to be completed in 1993.

In addition to these problems, NFC personnel could not support the basis for using the .2 percent figure in their accounts receivable calculations. During the course of our review, Customs revised this estimate, based on its past collection experience, to 1.68 percent in its Schedule TFS 220.9, "Report on Accounts and Loans Receivable Due From the Public" as of September 30, 1991. Our work did not include an assessment of the reasonableness of this percentage.

Although Customs has not performed any in-depth analysis to determine the root causes of the differences between the amounts assessed, mitigated, and collected, Customs officials told us that these differences result primarily from (1) the statutory requirements for assessing fines and penalties and (2) the mitigation process, which allows the amount assessed to be reduced to nominal amounts. This area will be further investigated in our financial statement audit.

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### **Other Accounts Receivable Discrepancies**

Our sample review of 427 individual bills not under protest as of March 31, 1991, showed that some of the accounts receivable recorded in Customs' automated system did not belong to Customs. Specifically, 12 bills valued at \$1.2 million involved taxes for bulk liquor, which are the responsibility of Treasury's Bureau of Alcohol, Tobacco, and Firearms. (Customs is responsible for collecting deferred taxes on bottled liquor.) According to Customs personnel, these errors were caused by importers or their brokers when coding the type of liquor on their import documents. Except for import documents selected for review by import specialists, there are no controls in place to ensure that coding errors made by importers/brokers are detected. A Customs debt collection official informed us that Customs is in the process of identifying and contacting importers/brokers to make them aware of the problem so that they can avoid future coding errors.

The accuracy of the accounts receivable balance is also questionable based on our sample review. Our sample of 174 unpaid bills identified 18 for which the source documentation did not agree with the amount recorded in the Billing and Collections Module of Customs' Automated Commercial System. These 18 bills were recorded in the system at about \$3,957,000, but the supporting documentation showed the total was about \$3,802,000. While the net difference between the amount recorded in the system and the supporting documentation was only about \$155,000, individual accounts varied greatly. In one case, Customs issued a bill for about \$1.1 million, but source documentation showed that only about \$685,000 was due. Customs officials were generally unable to explain the differences found in our sample.

Lastly, in our March 1991 report, U.S. Customs Service: Efforts to Strengthen Controls Over Mail Imports Duties and Fees (GAO/GGD-91-37), we reported internal control weaknesses in Customs' systems for assessing and accounting for duties and processing fees on mail imports. For example, the systems cannot track which assessments were collected and

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which were outstanding. As of the end of fiscal year 1990, Customs records showed that about 320,000 bills totaling about \$10 million were delinquent. A Customs official responsible for mail collections estimated that about two-thirds of the bills reported as delinquent had been paid. By December 1991, Customs had implemented the Automated Mail Entry Writing and the Mail Entry Collection Systems to address these problems.

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**Accounts Receivable**  
**Systems Are Not**  
**Integrated**

No single system currently captures all amounts (duties, fees, fines, and penalties) owed Customs from the time they are assessed to when they are collected.

Our review showed that one major reason why Customs lacks an integrated accounts receivable system is that the Automated Commercial System, its program system with major financial implications, was developed to facilitate Customs' commercial operations, not as an accounting system. For example, the Fines, Penalties, and Forfeitures Module of ACS was designed to provide various management reports, enforcement information, and a case chronology. While this module contains information on the fines and penalties assessed violators, it does not establish these amounts as individual accounts receivable or summarize this information directly in the general ledger system and on financial reports.

Because it lacks an integrated accounts receivable system, Customs must manually prepare financial reports using information from a number of automated and manual systems. In addition to being highly labor-intensive, and thus more costly to administer, such manual procedures increase the opportunity for error and the likelihood of inaccurate reporting.

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**Property Is Not**  
**Effectively Accounted**  
**For and Controlled**

Customs faces ongoing, serious problems in accounting for and controlling property used to support its functional operations, such as automated data processing (ADP) equipment, aircraft, boats, and vehicles. For fiscal year 1990, large differences existed between the results of Customs' physical inventory, its property system, and the general ledger system. Although the fiscal year 1991 inventory effort was a major improvement over the prior year, these differences still totaled millions of dollars. In addition, government furnished properties and spare parts provided to contractors were not always recorded in Customs' accounting or property systems. As a result, hundreds of millions of dollars in property are susceptible to fraud, waste, and misuse.

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**Chapter 2**  
**Financial Management Systems Do Not**  
**Adequately Account For and Control**  
**Resources**

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**Our Policy and Procedures Manual for Guidance of Federal Agencies** requires federal agencies to establish appropriate internal controls over all assets and maintain property records on all government owned property. It further states that agencies must establish accountability and exercise appropriate oversight and control over government property furnished to third parties such as contractors.

Customs first reported that it lacked accountability and control over its property in its 1983 FMFIA report. Subsequent reports continued to list accounting and internal control weaknesses in property. Because the Property Information Management System implemented in 1989 was expected to correct these weaknesses, Customs' 1989 FMFIA report did not list these weaknesses as a problem.

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**Differences Exist Between**  
**Physical Inventory and**  
**Accounting Systems**

Large differences exist between the results of Customs' physical inventory, its property system, and the general ledger system. Since 1988, Customs offices throughout the country have conducted an annual physical inventory of property. The results of the physical inventory are compared to inventory data in the property system. Differences are to be reconciled and appropriate records adjusted.

Customs could not give us the initial servicewide results from its fiscal year 1990 physical inventory because the physical inventory process had no uniform "start" or "end" date. However, a year after the physical inventory was begun and reconciliation efforts had been in process, Customs' April 1991 Property Information Management System Inventory Discrepancies Report disclosed that 3,926 items listed in the property system still had not been found; 1,798 items were not at the location listed in the property system; and 1,902 items observed were not listed in the property system. Some of the items that could not be found included a helicopter, a mobile home, a radio tower, boats, cars, dogs, and ADP equipment.

We were able to determine the initial results of the physical inventory for the Southeastern Region. As of June 1990, 7,343 items listed in the property system had not been found; 1,111 items were found that had not been recorded in the property system; and 661 items were listed under the wrong organizational code. As of April 1991, many of the earlier discrepancies had been reconciled, with the unresolved totals being 600, 247, and 240, respectively.

Because the discrepancy report did not list dollar amounts, and Customs could not readily give us this information, we were unable to determine the dollar value of the discrepancies. However, according to a Customs official, the 1990 physical inventory effort—from March 1990 through June 1991—identified a total of 10,006 items which Customs estimated to be valued at about \$46 million that were counted but not recorded in the property system.

Customs' fiscal year 1991 physical inventory was a major improvement over the prior year's effort. For the 1991 inventory, Customs established uniform "start" and "stop" dates of July 1, 1991, and September 30, 1991, respectively. Unlike the previous effort, Customs officials were able to provide the dollar amount of the items that had not been found during the physical inventory. As of November 12, 1991, 3,553 items with a total value of about \$16.4 million either had not been found or had not been physically counted. Customs determined through its reconciliation process that as of January 1992, 4,220 items totaling about \$6.2 million should be removed from the property system because the items had been lost. Furthermore, Customs officials determined that 399 items counted were not recorded in the property system, compared to 10,006 items in the 1990 physical inventory. As of December 11, 1991, the difference between the physical inventory and the property system totaled \$6.8 million.

The property system should serve as a subsidiary system with detailed information to support the property balance in the general ledger. However, as of September 30, 1990, the property system showed \$599 million in property and equipment, while the general ledger system showed about \$404 million.

Differences between the property system and the general ledger system can be partially explained by the inconsistent policy on the dollar value of property recorded in the accounting systems. Specifically, Customs Directive 5230-12, dated June 18, 1990, prescribes that property with a unit purchase price of \$1,000 or more and an expected useful life of 1 or more years be capitalized. This policy is followed for items recorded in the general ledger. However, Customs' 1990 Property Officers Handbook requires that items with a dollar value of \$300 or more be recorded in the detailed property system. Therefore, part of the difference between the property system and the general ledger system is attributable to the items valued between \$300 and \$999 that were included in the property system total.

However, for the fiscal year 1991 effort, Customs was able to differentiate between the capitalized items and the expensed items in the property system. A comparison of the property system balance for capitalized items and the general ledger for property and equipment showed a difference of about \$61.8 million. The balance for the property system was about \$542.8 million, and the general ledger system balance was about \$604.6 million.

Other factors contributed to the above property differences. First, failure to understand the property system is a major contributing factor to discrepancies between (1) the physical inventory and the property system and (2) the property system and the general ledger system. Customs' Property Information Management System was implemented in 1989. Initially, headquarters personnel provided training for this system to selected regional personnel, who in turn were responsible for training users at the districts and ports.

This training approach proved to be inadequate. Customs officials told us that many local property officers had not received training on the property system and that training was scheduled to begin in November 1991. As a result of the lack of training, local property officers did not know that the method used to process property acquisitions can significantly affect the action for receiving the property. Specifically, when acquisitions are processed through the Automated Receiving Reports System, a temporary property file is created in the property system requiring that a property identification number be entered upon receipt of the property. If, however, an acquisition is not processed through the Automated Receiving Reports System, the local property officer must create a file in the property system when the property is received. Since many local property officers are not aware of these two methods for processing acquisitions, some items are not being entered into the property system and some items are recorded twice.

Improper classification of property acquisitions also makes it difficult for Customs to reconcile differences between the general ledger system and the property system. We found that some Customs personnel were expensing property items which should be capitalized and vice versa. For example, a March 1991 transaction involving leasehold improvements with a value of over \$25,000 which should have been capitalized had been expensed. Several maintenance contracts valued between \$120 and \$550 which should have been expensed had been capitalized. It is especially important that personnel understand the importance of correctly applying the capitalization requirements because the general ledger system does

not have an automated edit to identify items incorrectly classified as capitalized items and thus bring them to management's attention.

Customs contracted with a private consultant in March 1991 to assist in reconciling its property differences. In addition, in July 1991, Customs developed a Property Information Management System Action Plan identifying its property problems and planned corrective actions. One of the planned corrective actions will establish a central data entry unit to create a temporary file in the property system for acquisitions not processed through the Automated Receiving Reports System, thus enabling all receipts to be processed uniformly. Customs officials told us the central data entry unit is scheduled to be implemented in 1992. If successfully implemented, this process should reduce errors and significantly improve the accuracy of Customs' property records. Customs officials also told us that a task force was established to address the issue of proper classification in January 1992.

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### **Government Furnished Property and Spare Parts Are Not Recorded in the Accounting Systems**

Our review showed that Customs' accounting systems do not account for all government property and spare parts furnished to contractors. Customs furnishes property to contractors who provide services for its seized property activities and aircraft and vessel operations. Additionally, the contractors maintain inventories of spare parts for Customs to use on its aircraft and vessel operations. As of November 1, 1991, Customs estimated that about \$55.8 million in government furnished tools and equipment and about \$56.2 million in spare parts were in the hands of its contractors. Because Customs' systems do not distinguish between property held by its personnel and property provided to contractors, the government furnished property recorded in its systems cannot be easily determined.

Customs lacks policies and procedures on how to account for government furnished property. Without such policies and procedures, Customs field locations account for these items inconsistently. Government furnished property is being recorded in the general ledger, the property system, or not at all.

Through field visits to each of its contractors, Customs is currently trying to determine (1) the value of government furnished property now in the hands of its contractors and (2) what government furnished property is currently recorded in either the property or general ledger systems. In addition, a handbook detailing how to account for government furnished property is expected to be completed in fiscal year 1992.

## Other Accounts Do Not Accurately Reflect Customs' Financial Position

In addition to the accounting system problems previously discussed, our review disclosed other instances in which Customs financial reports do not accurately reflect Customs' financial position. These financial reporting issues will also be further investigated in our ongoing financial statement audit of Customs.

Specifically, we found the following:

- In order to balance its assets with liabilities and equity, Customs used an unsupported amount of about \$1.3 billion in the equity section of its fiscal year 1990 Report on Financial Position.
- Contingent liabilities are not disclosed in the notes to the financial statements as required by Title 2. Refunds that are likely to be made to exporters who apply for drawbacks (refunds of duties collected on merchandise initially imported and now being exported) are not disclosed. Customs also did not report any contingent liabilities for amounts collected under protest and litigations pending against Customs. In fiscal year 1990, Customs paid about \$700 million in drawbacks and other refunds to importers who made excessive payments in duties and fees.
- Although Customs' delinquent receivables have averaged about \$100 million from fiscal years 1984 to 1990, it reported an annual allowance for doubtful accounts of about \$2 million in its Report on Accounts and Loans Receivable Due From the Public for fiscal years 1988 through 1990. There was no support for the amount reported. Customs recently developed a methodology for calculating its allowance for doubtful accounts. Using this methodology, it reported about \$179 million as of June 30, 1991. This methodology, however, does not adequately consider historical collection information and the various stages of mitigation (that is, negotiations which can reduce the amounts of fines and penalties owed).
- As of March 31, 1991, the reported \$191 million in current accounts receivable due from the public was understated by \$44.6 million because (1) a reporting error incorrectly categorized certain resolved protests<sup>9</sup> as noncurrent. As a result of our work, Customs manually adjusted its June 30, 1991, financial report to reflect some of the incorrectly categorized protests as current receivables.

<sup>9</sup>These include protests "filed untimely" which are automatically denied, protests completely denied, and partly denied protests. Partly denied protests would include a decision that was denied in one part and upheld in another.



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## **Financial Management Personnel Lack Adequate Training**

A lack of adequate training for Customs financial management personnel contributed to the problems Customs encountered in controlling and accounting for its resources and in preparing complete and accurate financial reports.

The 1985 centralization of Customs' accounting operations at NFC resulted in only 5 percent of its workforce having prior Customs experience. NFC officials told us that this occurred because most of their financial personnel did not relocate from Customs offices in the regions and headquarters. The lack of a structured training program for financial management personnel compounded this problem.

A March 1991 Customs Office of Management survey of financial management personnel confirmed the lack of adequate training. Specifically, 31 of the 50 respondents at NFC felt that the training they had received for their present position was poor or very poor. Of the 37 respondents in the Office of the Comptroller, 15 also felt that training was poor or very poor.

We believe that the lack of training caused a number of the problems with Customs' financial reports. For example, we found that personnel responsible for preparing the financial reports to the Treasury could not document the source for an amount in the equity section of the Report on Financial Position. Also, the Chief of the Revenue Branch at NFC could not document the basis for the calculation used to estimate an accounts receivable for fines and penalties.

To address some of its training needs, Customs hired a training program manager at NFC, who has given several training courses on finance-related matters since June 1991. Training classes on Customs' accounting systems are also to be developed. In addition, the Office of the Comptroller has developed training requirements for financial management personnel. The requirements list the types of training courses that would enhance the staff's abilities to carry out assigned duties and responsibilities.

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## **Conclusions**

While efforts are underway to address many of Customs' problems, more needs to be done to account for receivables, account for and control property, and prepare useful and reliable financial reports. Some of these efforts pose new challenges to Customs management on how to address the agency's accounting and internal control system problems. Successfully implementing an integrated accounts receivable system

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would give Customs accurate and reliable information on amounts owed the government from the time duties, fees, fines, and penalties are assessed to when they are collected. Such a system would help provide managers useful and relevant information in their decision-making.

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## **Recommendations**

We recommend that the Commissioner of Customs direct the Chief Financial Officer to

- record the accounts receivable balance for fines and penalties in the general ledger and on financial reports at the full amount assessed and establish an allowance for doubtful accounts that (1) reduces the accounts receivable to the net realizable value and (2) is determined by including an adjustment based on Customs' historical experience with the mitigation process and an evaluation of the debtor's ability to pay;
- develop and implement an integrated accounts receivable system to record and control all amounts (duties, fees, fines, and penalties) from the time they are owed until they are collected or determined to be uncollectible; and
- account for and control property by (1) monitoring the central data entry process to ensure accurate recording of acquisitions, (2) training local property officers on the property system to ensure proper recording of receipts, transfers, and disposals, (3) developing procedures to clearly identify property that should be capitalized or expensed, and (4) developing procedures to ensure all government furnished property is recorded consistently and accurately in Customs' accounting systems.

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## **Agency Comments**

For the most part, Customs concurred with our recommendations, but did not agree with our recommendation concerning the treatment of accounts receivable. However, Customs' National Finance Center Director told us in a subsequent discussion that Customs does not really disagree with our recommendation on accounts receivable. He said that Customs wanted to emphasize its plans to disclose accounts receivable net of uncollectible amounts in the financial statements. The basis and the amount of the uncollectible amounts will be disclosed in a footnote to the financial statements.

# Limited Controls Over Duties and Fees Owed and Collected May Have Resulted in Lost Revenue

In fiscal year 1990, Customs collected \$19.1 billion in duties, taxes, fines and penalties, and user fees. However, limited internal controls and deficient policies regarding the amount of duties and fees owed and collected may have resulted in the loss of millions of dollars in potential revenue.

Losses may have occurred because Customs did not

- capture the results of import document reviews so that this information can be used to assess the effectiveness of the selection criteria for import specialist review,
- verify that passenger user fees are collected,
- verify that harbor maintenance fees due on exported merchandise are collected, and
- assess penalties for late payment of duties and fees unless import documents were also filed late.

Customs has generally acknowledged that the above situations may have resulted in lost revenue. According to a Customs official, the agency lacks the information and resources necessary to ensure that it collects all of the revenue owed. In addition, Customs' policies and procedures in some cases serve to inhibit revenue collection activity. When importers are not paying required duties and fees, imported merchandise can have an unfair competitive advantage.

## Effectiveness of Criteria for Selecting Import Documents for Review Unknown

Customs import specialists review selected entry summaries to ensure that importers file complete and accurate documentation. An entry summary describes the type, quantity, and value of the merchandise; the duty category; and the estimated duties and fees payable.

The Entry Summary Selectivity Module of ACS is intended to select entry summaries that present a high risk of problems so that import specialists can review them. This module is to provide (1) an automated means of assisting import specialists in determining whether appropriate duties are paid and whether trade laws are being violated and (2) uniform treatment of importers and imported merchandise. The module, which began operating nationwide in 1988, is being implemented in phases and is expected to be fully deployed in 1995.

Entry summaries are flagged for review based on criteria programmed into the system. These criteria consist of factors such as the country of origin;

type of merchandise; tariff classification; first-time importers; and importer profiles (for example, the number of previous import violations). In addition, a random sample of entry summaries initially bypassed by the risk-based system are selected for review by import specialists.

In fiscal year 1990, the Entry Summary Selectivity Module selected about 2.7 million entry summaries, from a universe of 6.6 million, for review by import specialists. These reviews resulted in the assessment of additional duties and fees of about \$53 million.

Customs currently has no uniform, comprehensive mechanism for determining if the criteria for selecting entry summaries for review are effective. This is largely because it does not monitor the results of its reviews to either confirm the current selection criteria or to develop a valid basis for changing them. The Entry Summary Selectivity Module does not have a history file to support such efforts.

In phase II of the development of the Entry Summary Selectivity Module, Customs plans to build history files containing a record of problems associated with importers and imported goods found while reviewing entry summaries. Customs officials believe this will enable them to begin assessing the effectiveness of the selection criteria and provide historical information for the import specialists to use in their reviews. While Customs plans to implement phase II in 1992, we reported in March 1992 that implementation problems may make this time frame unrealistic.<sup>1</sup>

Results of Customs reviews have indicated that some violators are not being detected through the Entry Summary Selectivity Module. A special unit within the New York Region's Regulatory Audit Division identified additional duties and fees owed by reviewing a judgmental sample of entry summaries that were either bypassed or reviewed by import specialists. During fiscal years 1985 through 1990, this unit assessed importers \$4.8 million in additional duties and fees, net of refunds identified, after reviewing their entry summaries.

Audits such as the ones performed by New York's Office of Regulatory Audit help to identify additional duties and fees owed the government. The audits can assist in determining the degree of confidence to place in the quality of information reported on the entry summaries, as well as the quality of the reviews performed by import specialists. However,

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<sup>1</sup>Customs Automation: Effectiveness of Entry Summary Selectivity System Is Unknown (GAO/IMTEC-92-20, March 24, 1992).

according to the Director of the Office of Regulatory Audit at Customs headquarters, the New York Office is the only one performing these reviews. He told us that Customs officials have not decided to do these reviews service-wide because they do not know if they would be cost beneficial and that Customs currently has no plans to expand this activity to other regions.

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## Limited Controls Over Collection of Passenger User Fees

In fiscal year 1990, Customs collected over \$111 million in passenger user fees. However, Customs' Office of Regulatory Audit estimates that additional passenger user fees are not being collected because Customs lacks a system for determining amounts due.

The Consolidated Omnibus Budget Reconciliation Act of 1985 (Public Law 99-272) authorizes Customs to collect a user fee of \$5 for each passenger aboard a commercial carrier (air or sea vessel) entering the United States from a foreign destination other than Canada, Mexico, U.S. territories and possessions, or adjacent islands. The fee is for passenger inspection services and is usually collected at the time the ticket is issued by carriers, tour wholesalers,<sup>2</sup> travel agents, or other parties.

The authorizing legislation, however, can hamper Customs efforts to collect the fee. For example, the statute requires that fees be collected at the time the ticket is issued, rather than by the carrier transporting the passengers into the United States. Because carriers may transport passengers who have purchased tickets from another carrier, Customs cannot rely solely on passenger arrival logs to determine user fees owed by that particular carrier. For user fees collected, carriers and tour wholesalers are required to make quarterly remittances to Customs' NFC no later than 31 days after the calendar quarter ends. However, they are not required to report on amounts owed the government.

According to Customs' draft User Fee Handbook, the carriers and tour wholesalers are responsible for determining the amounts owed and remitting collections to a bank in Atlanta, Georgia. An NFC official told us the bank processes the transactions, deposits the funds collected to Treasury, and forwards information on deposits to NFC. NFC accounts for these collections using information provided by the bank.

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<sup>2</sup>Tour wholesalers generally issue their own transportation tickets which are not carrier related (chartered flights) and remit passenger user fees directly to Customs. Travel agents remit passenger user fees collected to carriers.

We found that internal controls over the passenger user fee program are almost nonexistent. For example, Customs does not have a complete and accurate list of the commercial carriers and tour wholesalers who collect passenger user fees. This would appear to be a basic internal control feature to identify carriers and tour wholesalers that are not paying. Customs also does not require that the carriers and tour wholesalers provide information on the number of passengers entering the United States to support payments made. Thus, even for those who do pay, Customs has no basis for knowing whether it is paid the proper amount. As with other user fees, Customs has not designated a specific organizational unit to manage the collection of passenger user fees.

In fiscal year 1990, Customs' New York Regulatory Audit Division reviewed 10 airline carriers servicing John F. Kennedy International Airport from July 1986 through March 1990 and found that 6 of the 10 carriers underpaid Customs \$1.9 million in passenger user fees. According to a Customs official, all but about \$57,000 was subsequently collected. This amount was contested by one of the airlines and upheld by Customs.

According to the NFC Revenue Branch Chief, Customs does not have the resources to monitor the collection of passenger user fees. It must rely on the good faith of the carriers to remit all fees and on audits performed by the Office of Regulatory Audit to identify carriers that underpay.

Audits of carriers are a means of ensuring that Customs receives passenger user fees collected by carriers. However, based on information from the Office of Regulatory Audit on completed and ongoing audits, New York was the only office within Customs' seven regions performing such audits in fiscal year 1990. During fiscal year 1991, new audits were initiated in the North Central, Southeast, and Southwest regions. According to a Regulatory Audit official, the office is expanding these audits to other Customs regions in fiscal year 1992.

In addition, Customs regulations currently do not provide for assessing penalties against carriers and tour wholesalers who fail to pay passenger user fees on time. We reviewed 80 quarterly payments made during fiscal year 1991 and found that 48 of these payments were received from 1 to 17 days after their due date. Customs is in the process of amending its regulations to require the assessment of penalties for late filers.

## Limited Controls Over Collection of Harbor Maintenance Fees on Exports

Our review also showed that Customs does not have adequate internal controls to ensure collection of harbor maintenance fees due on exports. In fiscal year 1990, Customs collected \$45.8 million in such user fees.

The Water Resources Development Act of 1986 (Public Law 99-662) authorizes Customs to collect harbor maintenance fees from commercial vessels loading or unloading merchandise or passengers in U.S. ports. Moneys collected primarily go to the U.S. Army Corps of Engineers for the improvement and maintenance of U.S. ports and harbors. The harbor maintenance fee on exported merchandise is .125 percent of the value of the merchandise. The fee for passengers leaving the United States is a percentage of fare paid.

Although it receives some information on exported merchandise, Customs does little to verify that it collects all harbor maintenance fees due. As with passenger user fees, no Customs organizational unit has been designated for managing the collection of these fees. According to a Customs official, when merchandise is exported on waterborne vessels, exporters file a shippers export declaration form which describes the merchandise and states its value. A copy of the declaration form is filed either directly with the Department of Commerce's Bureau of the Census or at Customs' ports of entry, and a copy is forwarded to Census for use in preparing trade statistics.

Census, in turn, prepares a quarterly computer tape of the shippers export declaration forms sorted by exporter identification number. A copy of this computer tape is forwarded monthly to Customs headquarters for trade enforcement purposes but not for validating fees collected. For example, Customs uses the tape to develop statistical data on problem exporters, such as exporters filing fraudulent refund claims for goods initially imported that they claim are being used in manufacturing merchandise that they will subsequently export.

Each quarter, exporters summarize their shipments and pay applicable fees to a bank in Chicago, Illinois. The bank processes the transactions, deposits the funds collected to a Treasury account for the Corps of Engineers, and forwards information on the deposits and any shippers export declaration forms to NFC.

NFC does not verify the amounts reported by the bank. Customs, therefore, has no assurance that the exporter or the bank remitted all funds due. It is essentially an "honors" system. The NFC Revenue Branch Chief told us that

Customs lacks the information to verify or test the amounts remitted to ensure that all user fees due are collected. Information, such as the shippers export declaration forms, is not always available to NFC, and the Census tape has incomplete and inaccurate data. As we pointed out in our report, U.S. Customs Service: Limitations in Collecting Harbor Maintenance Fees (GAO/GGD-92-25, December 23, 1991), the following problems can arise with Census data: export documents are not always filed, the value of the export shipment may not be accurate, and the exporters identification numbers may be missing from export documents. According to a Census official, Census has developed a program plan to improve its trade statistics which includes export information and would provide more comprehensive data.

In addition to not having adequate information, the Revenue Branch Chief said that Customs lacked the resources to verify amounts received. The Water Resources Development Act of 1986 does not allow Customs to use a portion of harbor maintenance fee revenue to pay for costs associated with collecting the fees as long as Customs is collecting the merchandise processing fee. This fee is supposed to cover costs associated with Customs' commercial activities, such as collecting duties, processing export and import documents, and examining cargo and commercial mail. Currently, Customs cannot document whether the merchandise processing fee covers costs incurred because it lacks a work measurement system.

A Customs official told us that in May 1991 Customs' User Fee Task Force compared shipment information from the Census computer tape with collections information provided by NFC. This effort disclosed that some exporters who exported goods out of the country did not pay any harbor maintenance fees. These data are now being used to plan audits of exporters by Customs' Office of Regulatory Audit.

Customs officials also told us that they would like to periodically match shipment data with payment data and issue automated notices to exporters when they find an indication of nonpayment. However, these officials told us that the agency lacks the resources to implement this effort. Permitting Customs to be reimbursed for the costs directly associated with collecting harbor maintenance fees would address this



resource concern. In December 1991,<sup>3</sup> we recommended that Customs be reimbursed by the harbor maintenance trust fund for its costs in collecting these fees.

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## Liquidated Damages Not Assessed on Late Payments

Customs regulations currently do not impose penalties for late payment of Customs duties and fees if importers file their entry summary documents on time. As a result, importers have no incentive to pay on time and hundreds of thousands of dollars in potential penalties and interest are not assessed or collected.

Customs regulations require that entry summary documents listing estimated duties and fees be filed within 10 days after the release of merchandise. If the entry summary is filed late, liquidated damages are assessed at the value of the merchandise but can be mitigated to a lesser amount (an administrative fee plus interest).

Prior to 1990, Customs assessed liquidated damages on importers or their brokers if payments were late. According to a Customs official, Customs sometimes collected these damages from surety companies which, under bond agreements with the importers or their brokers, guaranteed the payment of duties and fees if the importers did not pay. However, in 1990, surety companies refused to pay the liquidated damages, noting that Customs regulations do not clearly define the surety's liabilities for penalties relating to late filings. As a result, Customs discontinued its practice of assessing liquidated damages for late payment of duties and fees until its regulations are amended.

According to officials in some of the districts we visited, importers and their brokers are taking advantage of this gap in Customs regulations. For example, in the Miami District, for a 19-month period, 129 entries with estimated duties and fees valued at about \$288,000 were filed without payment. Payments for these entries were received from 6 to 483 days after the entry summary was filed. If liquidated damages had been assessed on these items, the administrative fees plus interest would have totaled about \$48,000. Since Miami is only 1 of 44 Customs districts, administrative fees plus interest might have totaled hundreds of thousands of dollars nationwide.

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<sup>3</sup>In our report, *U.S. Customs Service: Limitations in Collecting Harbor Maintenance Fees* (GAO/GGD-92-25, December 23, 1991), we recommended that the Congress amend the Water Resources Development Act of 1986 as proposed in H.R. 2589, the Customs Modernization Act of 1991. This proposal contains a provision that would authorize up to \$5 million annually from the harbor maintenance trust fund to help pay for costs associated with collecting harbor maintenance fees. We also recommended that these costs be justified before expenses are reimbursed.

Customs officials told us that the number of entry summaries filed without payment of duties and fees is increasing. At the end of our review, Customs was in the process of revising its regulations so that it may again assess liquidated damages for late payment of duties and fees. The proposed regulations were approved by the Department of the Treasury and published in the February 6, 1992, Federal Register for comment. According to a Customs official, revised regulations are expected to be released for implementation in fiscal year 1992.

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## Conclusions

Customs' ability to effectively assess and collect all duties and fees owed the government is undermined by inadequate information and weak internal controls. These problems may have resulted in the loss of millions of dollars. Identifying and collecting all amounts owed is also an important aspect of international competitiveness.

Efforts to ensure that all duties and fees owed the government are identified for collection have been, for the most part, limited to audits by a few Customs locations. It is vitally important that program personnel perform this type of function because audits can be limited in scope and coverage and may not provide management with a complete and continuous examination of program activities. Customs lacks a structured approach to ensure that internal controls are in place throughout Customs to collect all duties and fees owed. Also, large inconsistencies exist when late payers are not penalized because of inadequate regulations.

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## Recommendations

We recommend that the Commissioner of Customs

- direct the Office of Regulatory Audit to determine whether the New York Regulatory Audit Division's reviews of entry summaries that are either bypassed or reviewed by import specialists are cost-effective and whether the reviews should be expanded to other regions,
- designate a unit to manage the collection of various types of user fees and ensure that all user fees owed the government are identified for collection, and
- perform periodic computer matches of shipment and payment data to identify importers and shippers who did not pay or underpaid harbor maintenance fees.

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**Chapter 8**  
**Limited Controls Over Duties and Fees**  
**Owed and Collected May Have Resulted in**  
**Lost Revenue**

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**Agency Comments**

Customs generally concurred with our recommendations. It also noted several areas in this chapter which it believed needed clarification concerning the collection of user fees. We have revised the report where appropriate.

# System Deficiencies and Weak Internal Controls Hamper Debt Collection Efforts

In addition to the problems of ensuring that all duties and fees owed the government are identified for collection, Customs continues to face serious problems in collecting its delinquent accounts receivable (amounts owed that are 30 or more days past due). From fiscal years 1984 to 1990,<sup>1</sup> these amounts averaged over \$100 million. As of September 30, 1991, \$343.7 million (64 percent) of Customs' receivables due from the public were delinquent. Additionally, 83 percent of this amount was over 1 year old.

We found that Customs' efforts to collect delinquent accounts receivable were hampered by a variety of problems, including system design deficiencies, failure to comply with existing debt collection policies and procedures, and limitations imposed by the Debt Collection Act.

## Organizational Structure and Systems Do Not Facilitate Collection of Receivables

Customs' collections efforts are decentralized and do not effectively facilitate collection of delinquent accounts receivable. In addition, system deficiencies in four ACS modules—Fines, Penalties, and Forfeitures; Billings and Collection; Bond; and Protest—are hampering Customs' efforts to collect its accounts receivable.

## Collection Efforts Are Decentralized

Customs' collection function is currently divided between the Billings and Collection Section in NFC and the Offices of Fines, Penalties, and Forfeitures in the Customs districts. Furthermore, these organizational units must perform their collection responsibilities along with other duties and responsibilities, making it difficult to ensure effective debt collection. Specifically, NFC staff in the Billings and Collection Section are also responsible for collecting receivables arising from supplemental duties<sup>2</sup> and processing the collection of user fees and deferred taxes.<sup>3</sup> The responsible staff in the district Offices of Fines, Penalties, and Forfeitures also (1) assess or verify amounts assessed by other offices and (2) mitigate and collect fines and penalties.

<sup>1</sup>Customs centralized its financial management functions in Indianapolis, Indiana, in 1985. The first financial reports on file were for fiscal year 1984.

<sup>2</sup>Supplemental duty bills are issued when Customs assesses additional duties and fees on imported merchandise based on import specialists' reviews of entry summaries for accuracy and completeness.

<sup>3</sup>Deferred tax bills are generated for importers who have authority to defer payment of excise taxes (up to 28 days) on bottled spirits and wines.

Consolidating Customs' collection activities into one organizational unit, such as an Accounts Receivable Department, would help ensure efficient and effective collection of delinquent accounts receivable. Such an organizational unit would enable Customs to better identify problem importers/brokers for appropriate debt collection activities. Also, in staffing this organizational unit, Customs could consider providing training in debt collection and hiring personnel from both the private and public sectors with expertise in managing and collecting delinquent receivables. As we discussed in chapter 2, Customs' financial management personnel are not adequately trained to carry out their duties and responsibilities.

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**Delinquent Accounts  
Receivable Are Not  
Effectively Monitored**

System deficiencies impair Customs' ability to monitor its delinquent accounts receivable. For example, the Fines, Penalties, and Forfeitures Module of ACS does not allow Customs to age fines and penalties due. Also, this module cannot readily identify cases referred to the Department of Justice for legal collection action. The Fines, Penalties, and Forfeiture Module is currently being redesigned to include an aging capability. Customs expects this system effort to be completed in fiscal year 1993.

In addition, the Billings and Collection Module of ACS does not maintain summary information by account holder—importer, broker, or surety. Therefore, it cannot readily generate a consolidated statement of each debtor's outstanding bills. Instead, Customs must issue an individual bill for each transaction for which there is an outstanding amount.

Consolidating Customs' debt collection activities into a single debt management system would enable it to maintain summary information by importer so that it can target problem importers, brokers, and sureties for appropriate collection action.

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**Bond Sufficiency Is Not  
Effectively Monitored**

Customs' systems do not provide it with adequate information to monitor the sufficiency of a bond. When an importer defaults on duties and fees owed, Customs can pursue payment from the surety company which issued the bond covering the merchandise. The bond provides Customs a means of ensuring that (1) duties and fees are paid, (2) import documents are provided to Customs, and (3) merchandise brought into the country is available for examination. There are two main types of bonds. A single entry bond covers the estimated duties and fees owed on merchandise listed on a single entry summary and is to be attached to the entry summary when it is filed with Customs. A continuous bond covers

multiple entries for a specific period of time and is generally maintained on file at the port of entry. According to Customs' policies and procedures, the continuous bond is to be set at a minimum of \$50,000 and is generally 10 percent of the estimated duties paid in the prior year.

Customs does not know whether an individual entry summary is sufficiently covered when a continuous bond is used. Our review showed that millions of dollars in delinquent accounts receivable are subject to substantial risk of nonpayment because the importers' indebtedness exceeded the continuous bond amounts. For example, 10 of the 174 unpaid bills in our sample of 427 bills as of March 31, 1991, totaled \$915,000 and belonged to one importer. These bills were covered by a continuous bond with a face amount of \$500,000. Over a period of 4 years, this importer accumulated about \$467,000 in interest penalties, bringing the total amount owed Customs to \$1.4 million. In 1986, the importer filed for bankruptcy. Customs has filed a claim against the importer in bankruptcy court for the approximately \$900,000 not covered by the bond.

As of May 1991, Customs had about 100,000 active continuous bonds. According to a Customs official, although the Bond Module of ACS contains data elements such as the bond number, expiration date, and bond amounts, Customs uses this module only to determine whether a continuous bond is actively on file at the time of entry summary processing. The Bond Module cannot track accumulated entries against the bond to prevent the amounts owed from exceeding bond dollar limits.

Customs is developing a bond liability report which would accumulate and help identify outstanding bills as they approach the bond amount. The report will list bonds that have unpaid receivables over 45 days which equal or exceed 80 percent of the continuous bond amount. According to Customs, this report is expected to be available to Customs personnel at the ports of entry in 1992. In addition, Customs is developing a Surety Interface Module of ACS which would provide on-line information on the bond amount and any claims processed by Customs against the surety bond. This module is scheduled for completion in 1993. The above enhancements, if successfully implemented, should enable Customs to identify importers who bring merchandise into the country with insufficient bond coverage.

Customs has a number of ACS enhancement efforts under way. Assigning high priority to enhancement efforts relating to financial management can improve Customs' ability to account for and control its receivables.

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## Collection of Protested Accounts Receivable Is Hampered

We found that the Protest Module of ACS does not provide Customs adequate information to monitor a case through the protest process. In addition, Customs may have to wait to collect on a protest case involving multiple claims relating to different categories of goods. These deficiencies hamper Customs efforts to collect accounts receivable under protest.

A protest is an administrative vehicle for importers and brokers to contest Customs' assessment of additional duties and fees on imported merchandise. Importers and brokers can appeal protests denied by Customs to the Court of International Trade, a federal court. Protested accounts receivable are suspended from collection until a decision is rendered on the protest case by Customs. Such receivables totaled \$200.6 million as of March 31, 1991.

We examined a sample of protested bills to determine the status of Customs' collection efforts as well as the accuracy of information in ACS. For the three regions in our review, we selected a judgmental sample of 60 bills, which represented the various types of protest out of about 17,000 bills under protest as of March 31, 1991. We found that Customs could not locate 15 (25 percent) of the protest case files in our sample because the system did not contain specific or current information on the documents' location. For example, data on one case showed that the file was forwarded to headquarters for further review. The system, however, does not contain sufficient data file space to accommodate information on the specific location of documents in the Office of Regulations and Rulings or identify the individual receiving the file. Also, when an individual forwards a protest case to another location, there is no assurance that the individual at the other end received the file because the system does not require acknowledgement of receipt of the files forwarded.

In addition, delays might also occur in the collection of protested bills if an importer files one protest involving multiple claims related to different categories of goods that are not interconnected.<sup>4</sup> For example, a department store may import on one entry summary a shipment including both ladies' boots and ladies' hats. The department store may dispute the duties imposed on both the boots and the hats; however, because both articles were imported as a single entry, the store may file a single protest, asserting claims as to each. Customs believes that it may only issue one decision for each protest; accordingly, if Customs denies the claim over

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<sup>4</sup>A protested category of goods that is interconnected involves a protest of two or more issues within a category such as classification and valuation which must be considered together to arrive at an appropriate assessment decision.

the boots, it may not pursue collection of that bill until it has also resolved the claim over the hats. Consequently, several days to several months can elapse between the resolution of each category. Customs officials told us this situation occurs in about 5 percent of their protest cases.

Lastly, while Customs regulations require it to resolve cases within 2 years, final decisions are rendered years after the protest is filed. For example, a petroleum company filed a protest on August 28, 1986, for the assessment of \$1.4 million in supplemental duties. The region referred the case to the Office of Regulations and Rulings in Customs headquarters on April 11, 1989, over 2-1/2 years after it was received. Headquarters denied the protest on April 6, 1990, and the District officially announced its decision on May 31, 1990. Customs officials could not explain why this case took so long to process.

Furthermore, a lengthy protest can adversely impact debt collection. Importers and brokers are not required to pay the disputed debt before filing a protest. Bills become harder to collect as they age because documents are lost, bonds can become insufficient when the outstanding debt exceeds the face amount of the bond, and companies can go out of business. In the case discussed above, the principal and interest the importer owed accumulated to \$2.2 million as of March 31, 1991. However, Customs collected only the \$200,000 face amount of the bond from the surety. According to a Customs official, Customs is litigating the collection of the balance from the importer.

Customs has acknowledged this type of problem and told us that the agency implemented an initiative in fiscal year 1990 to resolve cases within 30 days in field offices and 120 days in headquarters. In addition, Customs resolved millions of dollars in outstanding protests under a "cleanup project."

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## **Noncompliance With Policies Regarding Sanctions and Supporting Documentation**

Over the years, Customs has not aggressively pursued collection of delinquent amounts owed the federal government. Factors contributing to this include failure to (1) adhere to existing policies and procedures involving sanctions and (2) maintain supporting documentation.

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### **Policies and Procedures Not Followed**

Customs often did not impose sanctions against importers and sureties in accordance with its policies and procedures for collecting delinquent



debts. Importers are to be sanctioned when debts are more than 168 days overdue; that is, future business transactions must be paid in cash or by check at the time import documents are filed and prior to the release of merchandise into the United States for sale.

When a bill is over 60 days past due, Customs is to demand payment from the surety company insuring the importer's transactions. If payment is still not received, Customs is to issue a "show-cause" letter to the surety offering it a final opportunity to make payment or explain to Customs why it should not. If the surety does not pay, Customs can sanction the surety; that is, Customs will not accept any additional bonds from the surety company in the future.

To determine the status of Customs' collection efforts, we statistically selected for review 427 bills, as of March 31, 1991, from the Billings and Collections Module of ACS.<sup>5</sup> Of these bills, 48 percent (205 bills) had been paid as of June 30, 1991, and 11 percent (48 bills) were either improperly recorded as receivables or improperly classified as current receivables. Although 138 of the remaining 174 unpaid bills in our sample met the requirements for sanctioning against an importer, sanctions had been issued on only 81 bills. Importers had filed for bankruptcy for 48 of the 57 bills which were eligible for sanctioning but had not been sanctioned. Bankrupt companies pose additional problems to Customs because it must file a claim in bankruptcy court for repayment. Our sample included 75 bills for importers who filed for bankruptcy.

In addition, although Customs issued demand notices to the sureties for 103 of the 174 unpaid bills we reviewed, it did not bar any of them from further import activity. According to a Customs collection official, "show-cause" letters were not issued after July 1989. In February 1990, Customs resumed issuing letters. Officials told us that past attempts to sanction sureties were unsuccessful because Customs lacked complete and accurate documentation of the debt, such as the entry summary document and the bond.

Furthermore, Customs did not adequately monitor the age of its delinquent receivables. Under the statute of limitations, Customs loses its opportunity to collect amounts due from the surety after 6 years. In our sample of 174 unpaid bills as of March 31, 1991, Customs had not yet demanded payment on 71 bills. Of the 71 bills, 41 were ineligible because 60 days had not

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<sup>5</sup>As of March 31, 1991, Customs had \$391.5 million in accounts receivable due from the public. The Billings and Collections Module of ACS accounted for approximately \$361 million (92 percent) of Customs' accounts receivable.

elapsed from the bill due date. Of the remaining 30 bills, a demand on surety had not been issued on 7 bills totaling about \$91,000 before the statute of limitations expired.

### Inadequate Documentation to Support Claims

Our review also showed that Customs did not maintain adequate documentation, such as the entry summary and the bond, to support valid and enforceable claims by the government. We found that Customs was unable to retrieve all the entry summary documents and/or copies of the bonds relating to accounts receivable in our sample. As shown in table 4.1, this condition existed in the three Customs regions in our review.

**Table 4.1: Entry Summary and Bond Documentation That Could Not Be Provided for Unpaid Sampled Cases**

Customs region	Sampled cases	Lack of documentation	
		Entry summary	Bond
Pacific	59	11	15
New York	71	32	43
Southeast	44	18	38
<b>Total</b>	<b>174</b>	<b>61</b>	<b>96</b>

Note: For these sampled cases, the missing documentation could have been the entry summary and/or bond.

For the most part, Customs could not explain why these documents were missing from its files. After assessing additional duties and fees, Customs personnel in the field generally file entry summaries and supporting documents at the ports of entry for an average of 2-1/2 years and then send the files to a Federal Records Center. Problems can arise when the entry summaries and bonds are sent to the Federal Records Center when additional duties and fees are still outstanding. For example, files may be misplaced or lost while in transit from one location to another.

In an effort to properly maintain entry summary documents, Customs instituted a policy in July 1990 requiring that entry summaries for outstanding supplemental bills be retained on file in the field offices as long as possible, but for at least 2 years, to facilitate the collection of open bills.

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## Debt Collection Act Prohibits Customs' Use of Certain Collection Tools

The Debt Collection Act of 1982 (Public Law 97-365) provides agencies with many of the collection tools available in the private sector, such as using debt collection services and disclosing debt information to credit reporting agencies. In addition, OMB revised Circular A-129, "Managing Federal Credit Programs," and Treasury issued credit management guidance entitled, Managing Government Credit: A Supplement to the Treasury Financial Manual, to support the use of these tools.

Customs, however, cannot use some of the collection techniques available to federal agencies under the Debt Collection Act of 1982. The act prohibits Customs from using private collection agencies and administrative offsets<sup>6</sup> to recover debts arising under tariff laws—Customs duties and fees. In our June 5, 1991, comments on Customs Legislative Proposals (B-243759), we noted that the use of collection contractors would allow Customs more resources for improving debt collection capability and enable it to take advantage of private sector expertise. A number of Customs' legislative proposals are now contained in the Trade Expansion Act of 1992 (H.R. 5100), which was introduced on May 7, 1992, and passed the House of Representatives on July 8, 1992. Section 269 of the bill includes a provision which would allow Customs to use private collection agencies.

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## Recent Actions to Address Collection Problems

Debt collection has not received sufficient management attention. From fiscal years 1984 to 1990, delinquent accounts receivable have averaged over \$100 million, ranging from 50 to 90 percent of its current accounts receivable.<sup>7</sup> Customs has reported problems in collecting its delinquent debts in its FMFIA reports since 1986. However, until recently, little substantive progress had been made.

In January 1991, Customs began to seriously address its debt collection problems by temporarily establishing an eight person Debt Collection Task Force to resolve accounts receivable over 1 year old and to monitor the others. The Task Force initially focused its efforts on bills dated 1985 or earlier because the statute of limitations on collection from the surety expires 6 years from the date billed. Although the Task Force had only collected \$1.4 million and written off or canceled about \$1.7 million as

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<sup>6</sup>Administrative offsets allow federal agencies to withhold payments due under one program to satisfy delinquencies owed to the United States under another program, as well as under the same program.

<sup>7</sup>Customs did not record an allowance for doubtful accounts for fiscal years 1984 and 1985. For fiscal years 1986 and 1987, the allowance was \$500,000. A \$2 million allowance was recorded for fiscal years 1988 through 1990.

uncollectible as of June 30, 1991, this is a step in the right direction. In addition, it had issued "show-cause" letters on about 500 bills whose value totaled about \$9.7 million.

Customs is also establishing a financial advisor position in some of its larger districts. These individuals will report to their district/area office directors and are expected to serve as the agency's principal advisors on financial management issues relating to entry summary collection programs and revenue accounting in the district/area offices. In addition to other responsibilities, the financial advisor is responsible for (1) ensuring timely and consistent debt collection action, (2) ensuring that outstanding debt is adequately supported by entry summary and bond documents, and (3) overseeing sanction activities.

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## **Conclusions**

Customs' system deficiencies are delaying its collection of amounts owed the government. In addition, debt collection was not a high management priority in the past. Failure to aggressively pursue the collection of delinquent accounts receivable reduces federal revenues and, more importantly, serves as an incentive to violators to ignore federal trade laws and regulations. Successful implementation of system enhancement efforts could ensure that known system weaknesses are corrected. Also, the debt collection tools afforded most federal agencies could enhance Customs debt collection efforts. Lastly, while the Debt Collection Task Force is an effective beginning, top management needs to establish a permanent organizational structure to collect delinquent accounts receivable and ensure that debt collection is a high management priority. Establishing an Accounts Receivable Department could address this concern.

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## **Recommendations**

We recommend that the Commissioner of Customs direct the Chief Financial Officer to

- establish ACS system enhancement efforts relating to the Fines, Penalties, and Forfeitures; Bond; and Protest modules as high priority initiatives to support the timely collection of accounts receivable;
- determine the feasibility of requiring, by regulation, that a separate protest be filed where unrelated categories of goods are contested on an entry summary document; and

- establish an Accounts Receivable Department responsible for collecting delinquent accounts receivable and coordinate its activities with the financial advisors in the districts and regions.

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## **Matters for Consideration by the Congress**

We suggest that the Congress consider enacting legislation to allow Customs to use private collection agencies. This could be accomplished by (1) enacting legislation similar to the provision contained in section 269 of H.R. 5100 or (2) amending the Debt Collection Act of 1982 to eliminate the prohibition on the use of private collection agencies to recover debts arising under tariff laws. We also suggest that the Congress consider enacting legislation to allow Customs to use administrative offsets.

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## **Agency Comments**

In our draft report, we proposed that Customs modify its regulations to allow the collection of resolved segments of open protests in order to support timely collections. Customs stated that it has a legal obligation (19 U.S.C. 1515) to make one decision on a protest case. In subsequent conversations with Customs officials, we clarified that it was not our intent to recommend multiple decisions on one protest case. Accordingly, we revised our recommendation to ask that Customs explore the feasibility of one protest, and thus one decision, for each category of goods when the entry summary involves multiple categories. This would allow Customs to resolve claims on each category independently and initiate collection or refund action without having to wait for claims on other categories to be resolved.

At times, Customs receives a single protest involving multiple categories of goods listed on one entry summary. Even though Customs may easily and quickly settle a claim relating to one of the categories, this practice can delay collection or refund of the duty pending resolution of claims involving the other, unrelated, categories of goods.

Filing separate protests for each category of goods included on an entry summary does not violate 19 U.S.C. 1515. Section 1514 (c), in fact, permits separate protests in situations such as these.

Customs generally concurred with our other recommendations.

# Management Commitment and Coordination Is Essential for Customs' Financial Management Systems Success

Over the past 3 years, Customs has attempted to modernize and improve its accounting operations and address its accounting system problems through two systems development efforts. The first involved an unsuccessful attempt to develop an in-house system. The second, which is currently underway, appears to be a step in the right direction. A financial system plan has been developed and a project team has been established to guide Customs through its implementation. The financial system plan, however, does not clearly delineate coordination between this development effort and the agency's efforts to improve ACS.

Top management's continued involvement and commitment is essential if the new system, referred to as the Asset Information Management System (AIMS), is to succeed and Customs' financial environment is to improve. While there is momentum now to address Customs' financial systems problems, AIMS is to be developed in two phases over the next several years, and improvements will not come about quickly. If such efforts are to succeed, they must be sustained across administrations and guided by a cohesive framework under centralized leadership.

## In-House Systems Development Effort Was Unsuccessful

Recognizing a need to improve its financial systems, in 1988 a private consulting firm under contract to Customs performed a systems replacement analysis. Although the consulting firm advised Customs to use an off-the-shelf package for its general ledger system and design interfaces with its present subsidiary systems, Customs management decided instead on an in-house redesign of its present system.

Started in the fall of 1989, this system was expected to integrate all subsidiary financial systems into one system that would simplify operations, facilitate reconciliations, provide more detailed financial information, and address other reported deficiencies.

In order to address the most serious system deficiencies, Customs first started work on three of the system's 12 modules—Budget Execution, Funds Control, and Security.

When these modules were implemented on October 1, 1990, several problems emerged. Customs' management was not fully committed to the project. Also, Customs' management failed to take the following steps, which are critical to ensuring a successful system:

- Requirements beyond the conceptual design had not been determined, including reporting requirements and needed interfaces with ACS or the payroll system. In addition, operating requirements such as organization and staffing had not been determined.
- The project was inadequately staffed; it had no full-time manager who was held accountable for its success.
- Testing was inadequate to ensure that the system worked as intended. In order to meet planned milestones, the developers of the Funds Control Module told us that they compressed what ideally would have been 3 months of testing into 3 weeks.

As a result, the three implemented modules did not operate as intended. Some users expressed concerns about the lack of needed budget reports and the need for more user training. In addition, some functions of the Funds Control Module, such as the ability to search the data and to produce desired reports, did not work properly. As a result, the module required more work and had to be completely retested 5 months after it was implemented. Further, the three modules did not have complete or consistent documentation to explain how the modules work and to serve as a basis for future system enhancements.

In December 1990, the Assistant Commissioner for Management directed that a study group be formed to reassess Customs' decision to develop the system in-house. In its report,<sup>1</sup> the study group recommended an approach very similar to that recommended by the private consulting firm in 1988—an off-the-shelf software package for the core system<sup>2</sup> with interfaces to Customs' subsidiary systems. The study also showed that an off-the-shelf package purchase would be less costly and enable Customs to have a financial system that complied with federal standards in a shorter time frame than through an in-house development effort. Based on this analysis, Customs terminated its in-house system efforts after working 3 years and incurring estimated costs of over \$4 million.

In commenting on our draft report, the AIMS Project Director informed us that Customs will continue to use two of the three modules implemented from its in-house systems effort (Security and Budget Execution) in its new system development project. The third module, Funds Control, is

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<sup>1</sup>Feasibility Study of Using Off-the-Shelf Software for the Customs AIMS Project (U.S. Customs Service, April 1991).

<sup>2</sup>The core system includes general ledger, budget execution, funds control, obligation, invoice handling, disbursing, accounts payable, accounts receivable, cost accumulation, and management reports.

being discontinued because a module in the new system effort better addresses the agency's funds control needs.

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## **New System Development Effort Under Way**

After terminating its in-house systems development effort, Customs initiated a new effort, which uses off-the-shelf software offered by a vendor on the General Services Administration (GSA) schedule for the financial core. To guide the new systems effort, Customs developed the AIMS Project Plan. The objectives of the AIMS project are to (1) implement a modern financial system which corrects current deficiencies and complies with federal financial systems requirements and (2) provide integrated and improved subsidiary systems. Customs awarded a contract to a financial software vendor on July 15, 1991, to purchase the software package, assist in its implementation, and establish interfaces with existing subsidiary systems.

The AIMS project is to be accomplished through a two-phase approach. In phase I, the contractor will install the new software on Customs' existing hardware. Other major tasks to be accomplished during this phase include (1) preparing a document describing the modifications needed for the software package to meet Customs requirements, (2) developing report requirements, (3) designing and developing necessary interfaces and modifications to the software package to meet Customs needs, (4) creating a data base, (5) training, and (6) transitioning from the current primary system to the new system and providing implementation support. Phase I is scheduled for completion in October 1992.

In phase II, the software contractor, in conjunction with Customs, is expected to review Customs' existing subsidiary systems to determine whether these systems need to be replaced with compatible off-the-shelf software or redesigned in-house. Specifically, the Customs Automated Travel System, the Customs Logistics Automated System, the Automated Receiving Report System, and the Property Inventory Management System will be evaluated in terms of functionality, performance, cost effectiveness, and useful life. Phase II is scheduled to begin in fiscal year 1993 and be completed in fiscal year 1994.

In contrast to the previous project, Customs established an AIMS Division with full-time staff responsible for implementing and supporting this AIMS project. The AIMS project team is made up of a project director, project managers, systems accountants, information management specialists,



systems analysts, programmers, and quality assurance personnel from both Customs and the contractor.

In addition, Customs plans to use the system development expertise from the Department of the Treasury's Financial Management Service. The AIMS Project Director told us that a Financial Management Service representative assisted them during the procurement process by advising them on the letter of interest that was sent out to all vendors on the GSA schedule and also provided advice on evaluating the proposals submitted.

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## **Coordination of ACS Enhancement Efforts With AIMS Project Is Lacking**

The AIMS Project Plan focuses primarily on Customs' efforts to enhance its core financial system, but it does not clearly delineate how the core financial system development effort will be coordinated with the agency's efforts to improve ACS, which supports Customs' collection activities. Coordination of these two efforts will ensure the compatibility of these systems—both hardware and software—and thus help avoid unnecessary development cost.

ACS passes summary and detailed revenue collections and accounts receivable information to the general ledger system on a daily, weekly, and monthly basis. Since ACS was implemented in 1984, continuous projects have been undertaken to redesign and enhance its various modules. However, management and accounting data requirements were not adequately considered in these projects. For example, the Protest Module of ACS which is used to suspend collection on disputed accounts receivable has an impact on effective debt collection; however, management and accounting needs were not considered in designing the previous or current enhancement efforts. Further, in designing the Drawback Module of ACS, which is used to track entry summaries entitled to refunds of duties initially paid on imported merchandise which is later exported, Customs did not consider its management and accounting information needs. Because this module does not record the amount of refunds per entry summary, it allows overpayments to be made to exporters.

Recognizing the importance of systems interfaces, Customs considered financial management needs in its 1991 efforts to enhance and redesign the Fines, Penalties, and Forfeitures Module. Financial users of the data from that module were included in deciding its financial requirements.

Efforts to incorporate the financial management needs into the enhancement projects such as the one discussed, however, are not

formalized and documented in a way to ensure that systems coordination takes place between financial managers, program managers, systems analysts, and auditors. Accountability for systems coordination must start at the top if it is to be taken seriously at the working levels. As the agency's Chief Financial Officer, the Assistant Commissioner for Management is responsible for approving and managing agency financial management systems design or enhancement projects. The CFO is also responsible for overseeing all financial management activities relating to the programs and operations of the agency. However, Customs' Assistant Commissioner for Information Management has responsibility for ACS. Therefore, it is critically important that the Chief Financial Officer have the appropriate level of input into all systems development efforts that impact the financial functions of the agency.

In commenting on our draft report, Customs stated that it has an ADP Steering Committee which is comprised of all Assistant Commissioners and representative Regional Commissioners under the direction of the Deputy Commissioner. The ADP Steering Committee is responsible for determining the priorities and resource allocation for information management system development efforts. While Customs has three ADP working groups that meet and formally report to the ADP Steering Committee, no formal structure exists to ensure coordination between the working groups. Enhancements to ACS are coordinated in one working group while the AIMS development effort is coordinated in another.

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## **Factors Essential to Systems Success**

In addition to avoiding some of its previous problems, Customs can take other actions to enhance the success of the current AIMS effort.

The Federal Information Processing Standards Publications provide guidelines for federal organizations to ensure system effectiveness, promote system economy and efficiency, protect data integrity, and safeguard information resources. Additionally, our booklet, Critical Factors in Developing Automated Accounting and Financial Management Systems, dated January 1987, identifies 14 critical factors for the successful development of major accounting and financial management systems.

Customs' past systems development efforts did not adhere to the following critical systems development factors in our booklet: (1) management commitment, (2) basic features, (3) target dates, (4) documentation, (5) training, and (6) independent testing. In the current effort, we found

that some of these factors had been addressed and must continue to receive top management attention. Since Customs is in the early stage of the new AIMS project, particular attention can be given to the factors that were not successfully addressed in previous development efforts. We offer the following views on those factors and Customs' efforts to date to address them.

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### **Management Commitment**

If a project is to succeed, management must agree that the project is needed and accept its goals. To ensure accountability and timely completion, management needs to maintain continuity among the people assigned to manage and help with the project. Top management support also needs to be continued across successive administrations until the project is completed and the problems are corrected. Only with top-level support can a major system become an accepted, integral part of the organization. Top management should actively participate at key decision points throughout the system's development and implementation.

The current Commissioner has lent full support to the new AIMS project. A full-time permanent staff has been assigned to work on the project, and the Assistant Commissioner for Management holds a monthly meeting to discuss the status of the project. A dialogue has also been established with the Department of the Treasury which should provide Customs overall guidance and direction in its current system development effort. This type of management commitment must be continued.

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### **Basic Features**

It is essential that planned automated systems include features such as the following:

- a comprehensive set of automated internal controls to ensure the accuracy and reliability of information in files and reports;
- audit trails allowing transactions to be traced from reports to their originators;
- appropriate sets of automated subsidiary ledgers, such as accounts payable and accounts receivable ledgers;
- one-time recording of transactions;
- automated matching of related transactions (for example, matching disbursements with related payables); and
- adequate manual procedures, since not all transactions will be automatically entered and almost all will require some manual work.

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## **Target Dates**

The guidelines warn that systems are often implemented too hastily in an attempt to meet inflexible or unrealistic target dates. The guidelines advise that schedules tend to be optimistic and that target dates should become more precise and reliable as a project progresses. Target dates should be established and variances analyzed while management acts firmly but fairly to deal with slippage and delays.

Since the implementation of ACS, meeting target dates has been a driving force in Customs development efforts. For example, the Funds Control Module in the first AMS effort was implemented without adequate testing or training in order to meet its milestone date. In addition, a January 1991 study<sup>3</sup> prepared by Customs' Office of Management stated that

"top management repeatedly stressed rapid implementation of new systems. With priority established for meeting target completion dates, less emphasis was placed on management control, testing and documentation or insuring systems integrity."

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## **Documentation**

The guideline emphasizes that no matter how well and carefully a system is designed, it is of little value if it is inadequately documented. Our review showed that several of the modules in ACS were not adequately documented. For example, the Fines, Penalties, and Forfeitures Module of ACS must now undergo a complete redesign, partly because the system was not documented to make needed changes. Without the necessary documentation, which shows how a module works, it is very difficult to determine how any one change to the module might affect other data involved. We also found that Customs did not maintain adequate documentation for the AMS modules implemented and for decisions affecting the direction of the project.

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## **Training**

Training can greatly reduce the tension often associated with major changes in the workplace. Training provides counseling and familiarity with a new system. It can also greatly smooth the transition to a new system and minimize resistance to change. Customs management has indicated that all employees will need training at various levels of detail.

Adequate training was not provided for some of Customs' previous system development efforts. In discussions with Customs personnel and in the Task Force Report, Customs has indicated that training, along with

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<sup>3</sup>Customs Appropriations/Procurement Study (U.S. Customs Service Office of Management, January 1991).

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documentation, will contribute to either success or failure in the acceptance and use of AIMS.

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## **Independent Testing**

Acceptance testing ensures that the system is operating as designed. Consequently, acceptance testing needs to be performed by a group independent of the developer. For complex systems, acceptance testing is a very formal process. A test plan identifies the documentation, equipment, and software needed for the tests. It also describes test methodology, test controls, and tests to be performed. Problems are noted in a formal test analysis report, and retesting continues until all problems have been satisfactorily resolved. Customs has not always required sufficient testing in some of its previous systems development efforts.

Successful implementation of the critical factors discussed in our booklet would contribute significantly to correcting some of the problems with Customs' financial management systems. For example, the one-time recording of a transaction would greatly reduce differences between the general ledger system and the subsidiary systems. Also, the one-time recording of a transaction would greatly enhance NFC's ability to perform the required reconciliations and more accurately report on its financial position.

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## **Conclusions**

Customs has developed a strategy aimed at correcting its accounting system weaknesses through a long-term system development effort. Coordination of the enhancement and redesign efforts related to ACS and successful implementation of the AIMS project can help Customs have an effective financial system with integrated and improved subsidiary systems.

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## **Recommendation**

We recommend that the Commissioner direct the Chief Financial Officer to establish a formalized structure, such as frequent meetings between top management, the project team, users, and auditors, to coordinate systems development efforts under the AIMS Project Plan with the system enhancement and redesign efforts for ACS and to document the agreements reached through this process.

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## **Agency Comments**

Customs officials generally concurred with our recommendation. However, in commenting on our draft report, Customs officials stated that

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**Chapter 5**  
**Management Commitment and Coordination**  
**Is Essential for Customs' Financial**  
**Management Systems Success**

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for the last 4 years, they have maintained a formal structure to coordinate and integrate major system development activities. Officials also stated that design and development efforts for all major systems are coordinated through the ADP Steering Committee and working groups.

We believe that the ADP Steering Committee serves a key role in coordinating the design and development efforts for all of Customs major systems. However, we believe that a formal structure needs to be developed to ensure coordination at the working group level. As we discussed in this chapter, some of the ACS modules were redesigned in the last 4 years without considering the needs of financial managers.

# CFO Act Provides a Framework for Improving Customs' Financial Environment

While efforts are underway to develop sound financial systems that provide accurate data, Customs still faces major challenges in developing a single, fully integrated financial management system and producing financial reports that are useful to decisionmakers. Financial management improvements will have to be a continuous process requiring top management support and commitment. The Chief Financial Officers Act of 1990 (Public Law 101-576) provides Customs a framework for improving its financial environment.

## CFO Act Requirements

The Chief Financial Officers Act was enacted in November 1990 to improve financial management operations in the federal government. The act establishes a leadership structure, provides for long-range planning, requires audited financial statements, and strengthens accountability reporting. The act, for example, establishes a CFO position at each of the executive departments and major agencies with responsibility for

- overseeing all financial management activities relating to the programs and operations of the agency;
- establishing financial management systems that comply with applicable accounting principles, standards, and requirements, as well as internal control standards;
- preparing a plan to guide financial management systems development and operations;
- preparing an annual report which describes the agency's financial status and includes audited financial statements;
- developing and reporting cost data and performance measures;
- developing and implementing systems for reporting costs and managing assets, including those needed for credit management and property accounting;
- integrating accounting and budget information and operations; and
- directing and managing the recruitment, selection, and training of financial management personnel.

The ultimate goal of the act is to formalize existing financial concepts to achieve improved financial systems and better information for use by decisionmakers.

## Factors to Consider in Implementing CFO Act

As we discussed in previous chapters, Customs has many ongoing actions which address the issues mandated in the CFO Act, most notably in

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accounting and internal control systems. Customs can take some additional actions to fully address the expectations of the Congress.

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### Consolidating Financial Management Operations

The CFO Act stipulates that an agency chief financial officer shall oversee all financial management activities relating to agency programs and operations. Further, the act calls for consolidating an agency's accounting, budgeting, and other financial management activities under the agency CFO, who is to report directly to the head of the agency on financial management matters.

We believe Customs has an effective CFO structure in place. The Commissioner has designated the Assistant Commissioner for Management as the agency's CFO, giving this person overall responsibility for financial management and accounting systems. He reports directly to the Commissioner and has established financial management as a primary area of focus. The current CFO structure should help ensure that financial management improvements are a high agency priority.

If improvements are to be implemented, one of Customs' most immediate challenges is to instill continuity in its CFO structure. In the past, financial management leadership fluctuated. Between May 1986 and June 1990, when financial management leadership was primarily vested with the Comptroller, five different individuals held this position, with the longest tenure being 2-1/2 years.

Putting more responsibility for Customs' financial management systems and related operations under the CFO poses a second challenge. For example, responsibility for setting policy guidance on the collection of duties, taxes, fees, fines, and penalties at the ports of entry is under the Assistant Commissioner for Commercial Operations. Also, the Assistant Commissioners for Information Management and Commercial Operations, rather than the CFO, are responsible for overseeing enhancements to the Automated Commercial System relating to entry and collections processing.

While consolidating all financial management operations under the CFO would be the ideal situation, Customs' multifaceted mission may make this impractical. Active CFO involvement in directing, managing, and/or providing policy guidance and oversight of agency financial management personnel, activities, and operations, as well as participating fully in



agency information resources management decisions, can help remedy this situation.

OMB's February 27, 1991, guidance for implementing the act (M-91-07) states that agency CFOs should have authority to establish, in coordination with program managers, an agencywide internal control process. The guidance also states that the CFO should have broad authority and responsibilities for financial management systems, which extend to (1) clearing the design for information systems that provide financial and/or program performance data used in financial statements, (2) ensuring that program information systems provide financial and programmatic data reliably, consistently, and promptly to agency financial management systems, and (3) evaluating the installation and operation of such systems.

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## Financial Management Plans

The CFO Act requires OMB to prepare and submit to the Congress a governmentwide 5-year financial management plan beginning in 1992. The act also requires agency CFOs to prepare and annually revise agency plans to implement OMB's 5-year financial management plan.

OMB's 5-year plan is to include (1) a description of the existing financial management structure, (2) a strategy for developing and integrating individual agency accounting, financial information, and other financial management systems, (3) proposals to eliminate duplicate and other unnecessary systems, (4) financial management personnel needs, and (5) a plan for ensuring the annual audit of financial statements of selected executive agencies.

On April 13, 1992, OMB issued its first 5-year plan to the Congress for improving federal financial management. According to OMB, good financial management

- optimizes the flow of resources to the central programmatic mission of the agency, with administrative support in proper proportion to programmatic activities;
- consistently conforms to legal and administrative requirements, and to financial measures, approaches, and standards that are promulgated separately from agency management;
- consistently performs basic financial functions—such as accounting, transactions processing, and asset management—at an acceptable level; and

- contributes information that is objectively important to the progress, performance, and success of the agency.

Under the requirements of the CFO Act, Treasury must prepare a 5-year plan. Although Customs, a Treasury entity, is not required to prepare a 5-year plan, such a plan can help avoid ad hoc efforts and duplication.

We believe the agency plan could begin with an overall vision of its objectives and direction. The plan could articulate on a broad basis an agency's management controls, long-term commitment, goals, approach, and focus for improving financial management. Customs' plan also could discuss how it will (1) establish linkages between accounting and budget information, (2) integrate programmatic and financial systems, (3) measure and provide reports on costs and performance of its programs and services, (4) link deficiencies noted in its FMFIA reports to the plans for improved systems, and (5) consider appropriate sharing or cross-servicing arrangements to reduce costs when appropriate. Such a plan would guide Customs' efforts to implement OMB's plan for improving financial management focusing on accountability, efficiency and effectiveness, and better decisionmaking. Also, this plan could be used as input into Treasury's 5-year financial management plan.

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### Developing and Reporting Cost Data and Performance Measures

The CFO Act requires that agency financial management systems produce cost information and provide for the systematic measurement of performance. To comply with the act, the agency's financial management systems need to be designed to collect data required to report cost trends and other performance indicators. OMB guidance (OMB Bulletins 91-14 and 91-15) also requires that agency financial statements include information to assess management performance. Ultimately using this information will be a key in strengthening program management.

Properly designed and reported, performance indicators can be valuable tools to agency managers, identifying problems before they reach critical proportions. Further, measures of performance can be useful to agency decisionmakers in assessing alternative choices and fostering economy and efficiency. Performance measures can also be used to objectively evaluate the agency's stewardship of the resources with which it is entrusted.

Developing accurate cost data will be a major challenge to Customs since it does not have a cost accounting system that collects and reports costs in

a way that will be useful to managers in their decision-making. For example, Customs currently must estimate the costs involved in merchandise processing and passenger inspections in order to establish the fee charged for such services. Customs' new payroll system, implemented in April 1992, is expected to capture labor costs for these functions.

We also noted that the performance data Customs collects are not always accurate or complete. For example, Customs' Office of Internal Affairs performed a June 1990 study of the Commercial Fraud Enforcement Program, which showed that current information systems do not provide an accurate and comprehensive picture of Customs' enforcement efforts. In addition, a February 1991 study of the Fines, Penalties, and Forfeitures Program concluded that the collection data for this program is not accurately recorded in the Fines, Penalties, and Forfeiture Module of ACS.

It is important for the CFO to work with program managers and information resources management personnel in developing meaningful performance measurement systems. The development of these systems could be discussed in the agency's financial management plan.

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### **Improving Debt Management and Accounting for Property**

The CFO Act specifically charges agency CFOs with responsibility for implementing asset management systems, such as those for debt collection and property control. This would involve (1) the authority to set and monitor policies for debt collection and guidelines for physical property, equipment, and inventory control and (2) the ability to monitor the application of these policies and guidelines. Hence, these difficult issues deserve the CFO's earliest attention so that (1) amounts owed the government can be adequately accounted for and collected and (2) property can be accurately accounted for and controlled.

In developing Customs' financial management plan, the CFO needs to focus on efforts to better account for and control its accounts receivable and property. As we discussed in chapters 2 and 4, Customs would benefit from an integrated accounts receivable system and a single debt management system. Procedures also could be developed to (1) clearly identify property that should be capitalized or expensed and (2) ensure that all government furnished property is properly and accurately recorded in Customs' accounting systems.

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## Financial Management Staffing

The CFO Act specifically gives the agency CFO responsibility for the recruitment, selection, and training of personnel to carry out agency financial management functions. OMB's February 27, 1991, guidance states that agency CFOs should have authority to provide agencywide policy advice on financial management staffing matters. OMB's guidelines state that agency CFOs should be responsible for (1) approving job descriptions and skills requirements for the heads of agency component financial management activities, (2) approving the people selected to fill these positions, and (3) participating in their annual performance evaluations.

In addition, the agency's overall financial management systems plan is to provide a framework for identifying and addressing potential staffing resource problems. Supporting a continuing education policy for agency financial managers is also important in maintaining a well-trained and high caliber financial management work force. Such a policy is recommended by the Joint Financial Management Improvement Program<sup>1</sup> in its December 1990 report, Continuing Professional Education: Federal GS-510 Accountants.

As with many federal agencies, Customs faces the challenge of attracting and retaining an adequate number of people with the necessary skills to staff financial management operations. Also, as we discuss in chapter 4, Customs may benefit from hiring personnel from both the private and public sectors with expertise in managing and collecting delinquent receivables to staff an Accounts Receivable Department.

In addition, our review showed that Customs' financial management personnel would benefit from a structured financial management training program. Customs recognizes this need and has developed training requirements for financial management personnel.

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## Conclusions

The CFO Act provides a broad foundation to strengthen Customs' financial management operations. Customs has already taken a major first step in implementing the act by designating the Assistant Commissioner for Management as its CFO and having strong support from the Commissioner for the reform effort.

Customs faces major challenges as it proceeds to develop an integrated financial management system, establish linkages between its accounting

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<sup>1</sup>The Joint Financial Management Improvement Program is a cooperative undertaking of OMB, the Department of the Treasury, GAO, and the Office of Personnel Management to improve financial management practices throughout government.

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**Chapter 6**  
**CFO Act Provides a Framework for**  
**Improving Customs' Financial Environment**

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and budget information, and develop cost data and performance measures. These issues require bold action and the continuing support of top management. The current leadership has made financial management improvement a priority and will need to sustain this emphasis.

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The CFO Act requires that Customs prepare financial statements for fiscal year 1992 as part of a pilot program and have them audited. As authorized by the act, we will audit these statements. As part of this work, we will continue to evaluate Customs' efforts to address issues mandated by the act.



# Comments From the U.S. Customs Service

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



THE COMMISSIONER OF CUSTOMS

WASHINGTON, D.C.

JUN 4 1992

MAN-1-OM:C:MC CBS

Mr. Donald H. Chapin  
Assistant Comptroller General  
General Accounting Office  
441 G Street, NW.  
Washington, D.C. 20548

Dear Mr. Chapin:

I have reviewed the draft report prepared by your office on Customs financial management operations and, for the most part, concur with the recommendations. Your report serves as a good summary of the problems Customs has experienced and documents much of the progress Customs has made in improving our operations. We also want to note that much of the discussions, findings, and recommendations deal with areas which were previously addressed by your office, the Office of the Inspector General, or internal reviews and corrective actions are well underway, if not already implemented.

I have reservations, however, about certain aspects of the report which tend to be misleading and, in some cases, inaccurate. Of particular note, I am very concerned with what appears to be a negative tone of the Executive Summary portion of your report. It diverts from the general nature of your report and tends to undermine the progress and resolve with which Customs has been aggressively pursuing improved performance and results for several years. To say that "past improvement efforts. . . have not been successful" and that ". . . top management has expressed its resolve to take necessary corrective actions," negates the accomplishments we have made to improve our operations to date and serves to understate the commitment and actions taken by top management. I strongly encourage your review and modification of the Executive Summary to reflect the balanced picture of Customs accomplishments and aggressive pursuit of further corrective, and progressive measures as depicted in the body of your report.

See comment 1.

**Appendix I**  
**Comments From the U.S. Customs Service**

- 2 -

See comment 2.

In reviewing your draft report, we take exception and nonconcur with two recommendations. Segmenting protest resolutions and treatment of the accounts receivable are the two recommendations at issue and we have prepared the enclosure in response. As previously stated, we are in general agreement with most of your recommendations. However, we have also noted in the enclosure areas where we believe your report inaccurately depicts or omits pertinent information used in the development of several findings and recommendations.

I thank you for the opportunity to comment on the report and hope that our comments have been beneficial in presenting an accurate appraisal of financial management at the Customs Service. The audit process was a beneficial one. The discourse that took place between auditors and managers over the course of the audit was helpful to us in resolving some of the outstanding issues addressed in the draft report. We look forward to receiving a copy of your final report.

Sincerely,



Carol Hallett  
Commissioner

Enclosure



Financial Management Review  
Response to GAO

SEGMENTED PROTEST RESOLUTION

**FINDING:** Customs policy precludes the collection of resolved sections of a protest case.

**RECOMMENDATION:** Customs should eliminate its policy restrictions to allow the collection of resolved segment of open protests in order to support timely collections.

**RESPONSE:** Customs maintains a legal obligation to make one decision on a protest case. 19 U.S.C. 1515 only allows for one decision on a protest. Customs must notify the protestant of a denial and include a statement of the protestant's right to judicial review. Consequently, Customs cannot release some of the associated entries for collection before resolving the entire protest. When the protest is resolved by Customs, the protestant must pay interest on any delinquent amounts owed. The recommended action to eliminate the policy restrictions to allow the collection of resolved segment of open protests in order to support timely collections would not be in compliance with 19 U.S.C. 1515.

TREATMENT OF ACCOUNTS RECEIVABLE

**FINDING:** Rate at which penalties and fees are recorded as accounts receivable may grossly understate the true amount owed.

**RECOMMENDATION:** Customs should record all receivables for FP&F at the assessed amount and establish an allowance for doubtful accounts based on historical analysis.

**RESPONSE:** In accordance with draft guidelines from the Office of Management and Budget (OMB), Customs disclosure of Accounts Receivable will be net of uncollectible amounts. The basis and the amount of the uncollectible amounts will be disclosed in a footnote to Customs auditable financial statements. Customs will meet with GAO to resolve the footnote presentation as part of the CFO audit effort of Customs fiscal year 1992 financial statements. The footnote currently being proposed will show all non-Federal types of receivables in the aggregate less an allowance. An explanation of the methodology for each type of receivable allowance will be explained as part of the footnote.

See comment 3.

See comment 4.

**CLARIFICATION ISSUES**

We believe the following information needs to be clarified in your report.

- **Fines, Penalties and Forfeitures (FP&F) Collections**  
(Page 22-23)

The report states that Customs does not expect to collect the assessed or mitigated amounts from FP&F cases. While we seldom expect to collect the full amount assessed, Customs does, in fact, expect to collect the mitigated amount without any factoring.

- **Collection of User Fees**  
(Page 43-48)

During the exit briefing on this review, Customs was assured by the General Accounting Office (GAO) staff that the report would do justice to the complexity of the issues involved in administering passenger processing fees and harbor maintenance fees. In the case of passenger processing fees, the legal issues raised by who maintains responsibility for collection of the fee, who Customs relies upon for remittance, and what the fee is based upon are not all resolvable by actions taken by Customs. Similarly, with Harbor Maintenance Fees, all the efforts made by Customs have not and will not improve the accuracy and completeness of information received from external providers such as Bureau of the Census and the Corps of Engineers. To state or imply that Customs is wholly culpable is ignoring the complex environment of assessing and collecting user fees.

- **AIMS Development**  
(Page 67-69)

According to your report, AIMS development was unsuccessful and abandoned after spending three years and over \$4 million. This assertion does not give credence to the fact that the modules developed in-house for use in AIMS continue to be used and are proving to be valuable tools for continued use in Customs administrative systems. Furthermore, the ancillary systems developed by Customs such as travel and receiving could not be procured through off the-shelf alternatives and these systems are of interest to other Federal agencies.

See comment 5.  
Now on pp. 19-21.

See comment 6.  
Now on pp. 32-36.

See comment 7.  
Now on pp. 49-51.

See comment 8.  
Now on pp. 52-53.

- **AIMS/ACS Coordination**  
**(Page 72-73)**

Coordination of AIMS and ACS development efforts is not formalized and documented according to your report. However, for the last four years, Customs has maintained a formal structure to assure coordination and integration of major system development activities. The ADP Steering Committee which is comprised of all Assistant Commissioners and representative Regional Commissioners under the direction of the Deputy Commissioner, is responsible for determining the priorities and resource allocation for information management system development efforts. Through regularly scheduled meetings as well as at the working group level, design and development efforts for all major systems are coordinated.

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The following are GAO's comments on the U.S. Customs Service's letter dated June 4, 1992.

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## GAO Comments

1. The "Results in Brief" section of the executive summary now reflects Customs' commitment to progress in resolving financial management problems.
2. Discussed in "Agency Comments" sections of the executive summary and chapters 2 and 4.
3. Discussed in "Agency Comments" sections of executive summary and chapter 4.
4. Discussed in "Agency Comments" sections of executive summary and chapter 2.
5. The report was revised to show that while Customs seldom expects to collect the full amount assessed, it does expect to collect the mitigated amount.
6. The report was revised to show that legislation authorizing the passenger user fee program can hamper Customs' collection efforts and that Customs may receive inaccurate and incomplete export data from the Bureau of Census.
7. Based on subsequent discussions with Customs, the report was amended to reflect the current status of the three modules developed in Customs' in-house systems development effort.
8. The report was changed to note the efforts of Customs' ADP Steering Committee and ADP working groups in coordinating design and development efforts for all major systems. We also noted our reservations about the effectiveness of these efforts.

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